

Pension Board AGENDA

DATE: Wednesday 2 November 2016

TIME: 2.00 pm

VENUE: Committee Rooms 1 & 2,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chair: Mr R Harbord

Board Members:

Councillor Kiran Ramchandani	- Employer Representative - London Borough of Harrow
Gerald Balabanoff (VC)	- Scheme Members' Representative - Pensioners
Sudhi Pathak	- Employer Representative - Scheduled and Admitted Bodies
John Royle	- Scheme Members' Representative - Active Members

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

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

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

Reserve Members may attend meetings:-

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

2. DECLARATIONS OF INTEREST

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

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

3. MINUTES (Pages 5 - 10)

That the minutes of the meeting held on 28 June 2016 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.

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 on 28 October 2016. 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. INFORMATION REPORT - ACTUARIAL VALUATION 2016 (Pages 11 - 46)

Report of the Director of Finance

8. INFORMATION REPORT - LONDON BOROUGH OF HARROW PENSION FUND: ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Pages 47 - 64)

Report of the Director of Finance

9. INFORMATION REPORT - STATUS OF PENSION BOARD/ INSURANCE ARRANGEMENTS (Pages 65 - 72)

Report of the Director of Finance

10. LONDON BOROUGH OF HARROW PENSION BOARD: DRAFT ANNUAL REPORT TO COUNCIL 2016 (Pages 73 - 80)

Report of the Director of Finance

11. REVIEW OF TERMS OF REFERENCE (Pages 81 - 90)

Report of the Director of Finance

12. INFORMATION REPORT - THE LOCAL GOVERNMENT SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016 (Pages 91 - 104)

Report of the Director of Finance

13. INFORMATION REPORT - STATEMENT OF INVESTMENT PRINCIPLES/INVESTMENT STRATEGY STATEMENT (Pages 105 - 118)

Report of the Director of Finance

14. INFORMATION REPORT - PENSION FUND COMMITTEE MEETINGS: 21 JUNE 2016 AND 6 SEPTEMBER 2016 (Pages 119 - 142)

Report of the Director of Finance

15. INFORMATION REPORT - PERFORMANCE MONITORING (Pages 143 - 146)

Report of the Director of Finance

16. INFORMATION REPORT - COMPLIANCE WITH THE PENSIONS REGULATOR CODE OF PRACTICE (Pages 147 - 156)

Report of the Director of Finance

17. INFORMATION REPORT - KNOWLEDGE AND UNDERSTANDING OF LOCAL GOVERNMENT PENSION SCHEME (Pages 157 - 210)

Report of the Director of Finance

18. INFORMATION REPORT - WORK PROGRAMME 2016-17 (Pages 211 - 214)

Report of the Director of Finance

19. ANY OTHER BUSINESS

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

AGENDA - PART II

Nil

*** 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 BOARD MINUTES

28 JUNE 2016

Chair: * Mr R Harbord

Board Members:	† Councillor Kiran Ramchandani	Employer Representative - London Borough of Harrow Scheme Members' Representative - Pensioners Employer Representative - Scheduled and Admitted Bodies Scheme Members' Representative - Active Members
	* Gerald Balabanoff (VC)	
	* Sudhi Pathak	
	† John Royle	

* Denotes Member present

† Denotes apologies received

40. Attendance by Reserve Members

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

41. Appointment of Chair

RESOLVED: Having noted that the Board's terms of reference required the Chair to be appointed for a three year period, confirmed the appointment of Richard Harbord as Chair of the Pension Board for the Municipal Year 2016/17.

42. Appointment of Vice Chair

RESOLVED: Having noted that the Board's terms of reference required the Vice-Chair to be appointed for a three year period, confirmed the appointment of Gerald Balabanoff as Vice-Chair of the Pension Board for the Municipal Year 2016/17.

43. Declarations of Interest

RESOLVED: To note that no interests were declared by the Board Members present.

44. Minutes

RESOLVED: That the minutes of the meeting held on 22 March 2016, be taken as read and signed as a correct record.

45. Public Questions

RESOLVED: To note that no public questions had been received.

46. Petitions

RESOLVED: To note that no petitions had been received.

47. Deputations

RESOLVED: To note that no deputations had been received.

RESOLVED ITEMS

48. Motion to exclude 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:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
16.	Information Report – Actuarial Variation 2016	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

49. Information Report - Actuarial Variation 2016

The Board received a confidential report of the Director of Finance and a detailed presentation on the 2016 Valuation assumptions from Laura Molloy, Actuary, Hymans Robertson.

The Actuary advised the Board that all local government pension schemes in England and Wales would have their valuations done this year. Ms Molloy outlined the key assumptions in making the valuation.

The Board made comments and asked detailed questions. The officer undertook to provide a written response to some of the queries raised.

The Board thanked Ms Molloy for her presentation and attendance.

RESOLVED: That the report and presentation be noted.

50. Motion to re-admit the Press and Public

RESOLVED: To re-admit the press and public to the meeting for the remainder of business.

51. Information Report - London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2016

The Board received a report which presented the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

The officer reported that comments made by the Pension Fund Committee had been incorporated into the report and he drew attention to the improved commentary as requested by the Board. In response to a question he confirmed that the Pension Fund value had reduced by £14m. In terms of funding arrangements, the officer advised that at the 2013 actuarial valuation, the Fund was assessed as 70.3% funded (73.5% at the March 2010 valuation) which corresponded to a deficit of £234m (2010 valuation:£157m) at that time. On 31 March 2015 the net liability had been £357m compared to £300m on 31 March 2016.

The Board expressed concern in terms of the time it took for the changeover in Fund managers and suggested that the Authority should have a process whereby it could react more quickly. Referring to the 34% of the Fund invested in SSGA MPF All World Equity Index Sub-Fund, a member of the Board stated that this was a sizable amount in one Fund. The officer advised that this was the 'backstop' for the equity strategy.

The Board made comments and asked detailed questions. The officer undertook to provide details of the figures omitted in relation to the actuarial present value of promised retirement benefits and also details of the oversight and management costs (Note 10). In response to a question as to the number of scheduled or admitted bodies which owed money to the Fund at the end of the year the officer commented that there was at least one and that

he would provide Board members with a full list. The Pension Regulator had said that there should be a note about this in the accounts and annual report.

RESOLVED: That the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016 be noted.

52. Information Report - Management and Investment Expenses Benchmarking

The Board received an update report on developments in connection with benchmarking the management and investment expenses of the Fund and sought their views on the benchmarking exercise carried out by CEM Benchmarking.

The Board commented that whilst the benchmarking exercise had not been overly useful it was good to see that Harrow was not out of line with the rest of the world. It was suggested that it might be appropriate to see if the London Collective Investment Vehicle (CIV) could carry out a benchmarking exercise.

RESOLVED: That the report be noted.

53. Information Report - Pension Fund Committee Meeting 9 March 2016

The Board received a report which detailed matters considered by the Pension Fund Committee on 9 March 2016 and invited comments.

Members of the Board who had attended the meeting of the Pension Fund Committee the previous week expressed concern in relation to local investment and the building of houses. A member stated that he would wish to see independent advice on the governance of this issue and this view was endorsed by the Chair of the Board.

RESOLVED: That the report be noted.

54. Information Report - London Borough of Harrow Pension Board: Draft Annual Report to Council 2016

The Board agreed to consider an information report in relation to the London Borough of Harrow Pension Board: Draft Annual Report to Council 2016 as urgent for the reasons set out on the supplemental agenda.

The officer introduced the report which advised the Board of a need to prepare a report on their work for presentation at Full Council on 22 September 2016. He asked the Board to consider what they would wish to be included in the report. The Director of Finance added that whilst a factual outline had been drafted for the Board, the report itself had to come from the Board members.

The Board commented:

- the report needed to include a flavour of the work done;

- the membership was for three years and if it changed at that point there was concern that work would have to be started again;
- there were a number of new Members on the Pension Fund Committee who would therefore need to develop their knowledge of the subject matter;
- the Pension Fund Committee needed to value the Board and its work and development of a relationship would be beneficial. Joint training or presentations outside the formal meeting process may assist with this;
- the Chair of the Pension Fund Committee was welcome to attend the Board.

The Chair undertook to draft the report and to circulate it to Board colleagues for their input.

RESOLVED: That the report be noted.

55. Information Report - Work Programme 2016/17

The Board received a report which provided a suggested work programme to the end of the 2016/17 financial year.

The officer advised that he had requested that the Authority's Pensions Manager provide the Board with monitoring information on the administration of the Pension Fund. It was suggested that the work programme also include consideration of the Board's terms of reference.

The Chair suggested that a joint meeting with the Pension Fund Committee be convened in September for the consideration of the actuarial variation.

RESOLVED: That the report be noted and the work programme be amended in line with the Board's comments.

56. Information Report - Annual Review of Internal Controls at Longview Partners

The Board received a report which set out, in summary, the contents of the latest internal controls report from Longview Partners LLP.

RESOLVED: That the report be noted.

57. Any Other Business

The members of the Board present expressed the view that they wished their meetings to be held during the day.

RESOLVED: That the next meeting of the Board be held at 2.00 pm on Wednesday 2 November 2016.

(Note: The meeting, having commenced at 2.26 pm, closed at 4.44 pm).

(Signed) RICHARD HARBORD
Chair

REPORT FOR: PENSION BOARD

Date of Meeting: 2 November 2016

Subject: Information Report – Actuarial Valuation 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: 2016 Valuation - Initial Whole Fund Results (Hymans Robertson)

Section 1 – Summary

This report invites the Board to receive a presentation from the Actuary, Hymans Robertson LLP on progress on the triennial valuation to date and, in particular, on the initial whole fund results.

For Information

Section 2 – Report

1. At its meetings on 22 March 2016 and 28 June 2016 the Board received presentations from the Actuary, Hymans Robertson LLP on the Actuarial Valuation 2016 and made various observations which have been reported to the Pension Fund Committee.
2. The Pension Fund Committee has resolved that the Actuary makes a presentation to each of its meetings and it is important that the Pension Board be accorded the same facility. Whilst the role of the Board is to oversee the administration of the Fund it is felt that to carry out this function effectively it needs to be provided with information that is consistent with that provided to the Committee.
3. Ms Gemma Sefton the partner responsible for the valuation has been invited to make the same presentation that she made to the Committee on 6 September covering progress to date and the most significant issue at this stage, the initial whole funds results. The slides supporting Ms Sefton's presentation are attached.
4. The Board is invited to receive the presentation from Ms Sefton, comment as members see fit and note this report.
5. Both before and during its next meeting on 22 November the Committee will be considering the next stage of the valuation process and have invited the Board to attend both sessions.

Financial Implications

6. Whilst, clearly, the results of the triennial valuation have a major impact on the management of the Pension Fund and the contributions from the General Fund there are no financial implications arising directly from this report.

Risk Management Implications

7. The Pension Fund has its own risk register which includes risks arising in connection with the triennial valuation.

Equalities implications

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

Council Priorities

9. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Director of Finance

Date: 20 October 2016

Ward Councillors notified: Not applicable as the report is relevant to all wards.

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













2016 valuation – initial whole fund results

- Gemma Sefton
- 6 September 2016

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the Financial Conduct Authority

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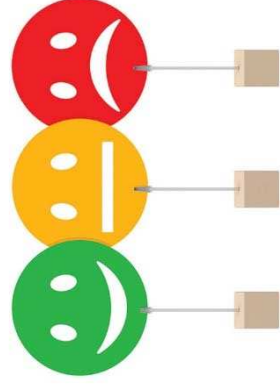
2016 progress report

Event	Timescale	Progress
Assumptions agreed with Pensions Committee	21 June 2016	
Data received and cleansed	June/July 2016	
Whole fund results issued to officers	10 August 2016	
Whole fund results discussed with Pensions Committee	6 September 2016	
Employer results issued to officers	16 September 2016	
Submission of results to Scheme Advisory Board	30 September 2016	
Contribution strategies tested using ALM	Early October 2016	
Employer surgeries held	18 October 2016	
Pension board	2 November 2016	
Funding strategies reviewed with Pensions Committee	22 November 2016	
Final employer results and Funding Strategy Statement agreed	February/March 2017	
Sign off valuation report and R&A	31 March 2017	

What are we going to cover?



Recap of steps to date



Valuation results



Next steps

Steps to date

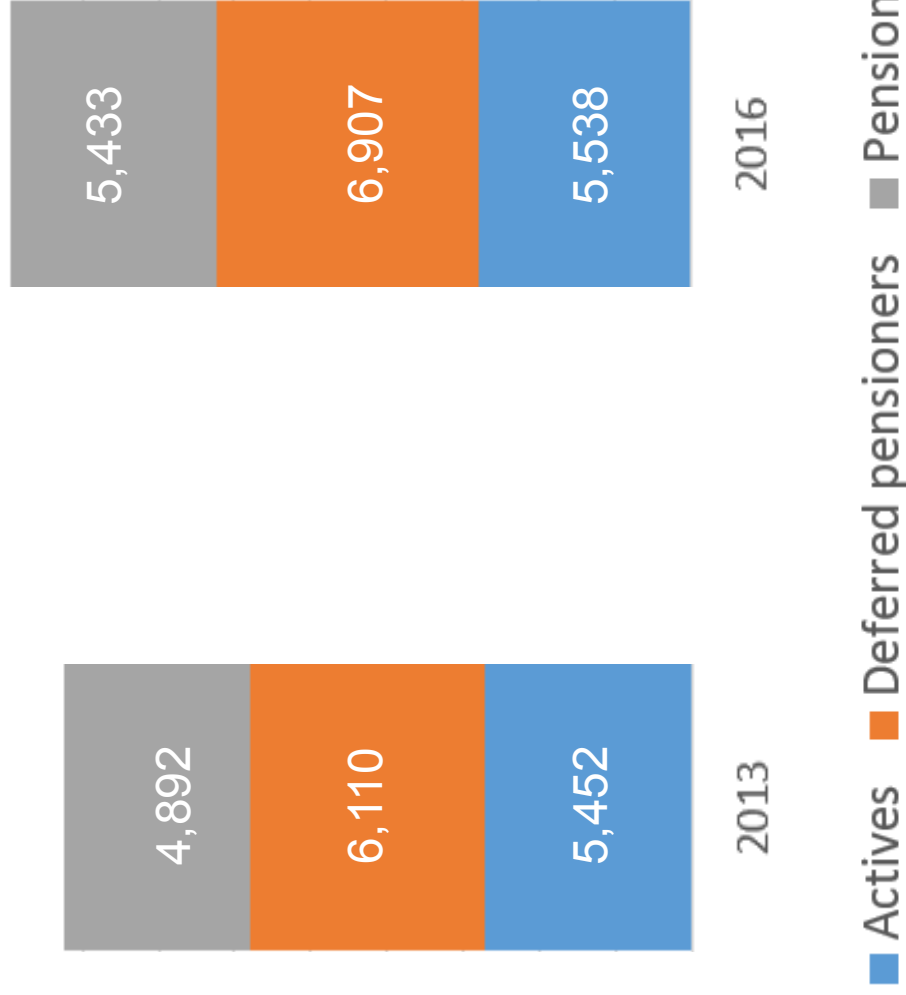
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Key assumptions for funding target

	2013 valuation	2016 valuation	Derivation of assumption
Discount rate (assumed future investment return)	4.6%	3.8%	No change in approach: Gilts plus prudent asset out-performance assumption (AOA) At 2013: AOA = 1.6% p.a. At 2016: AOA = 1.6% p.a.
Long term pay growth	3.8%	2.5%	Change in approach: At 2013: RPI + 0.5% At 2016: RPI – 0.7%
Pension increases (CPI)	2.5%	2.1%	Change in approach: At 2013: CPI = RPI - 0.8% At 2016: CPI = RPI - 1.0%
50:50 take up	10%	5%	Lower than anticipated take up
Longevity	Bespoke fund analysis, peaked improvements, CMI 2010 model for future improvements	CMI 2013 for future improvements	2013 to remove volatility experienced in last two years

Membership data received and validated



Whole fund results

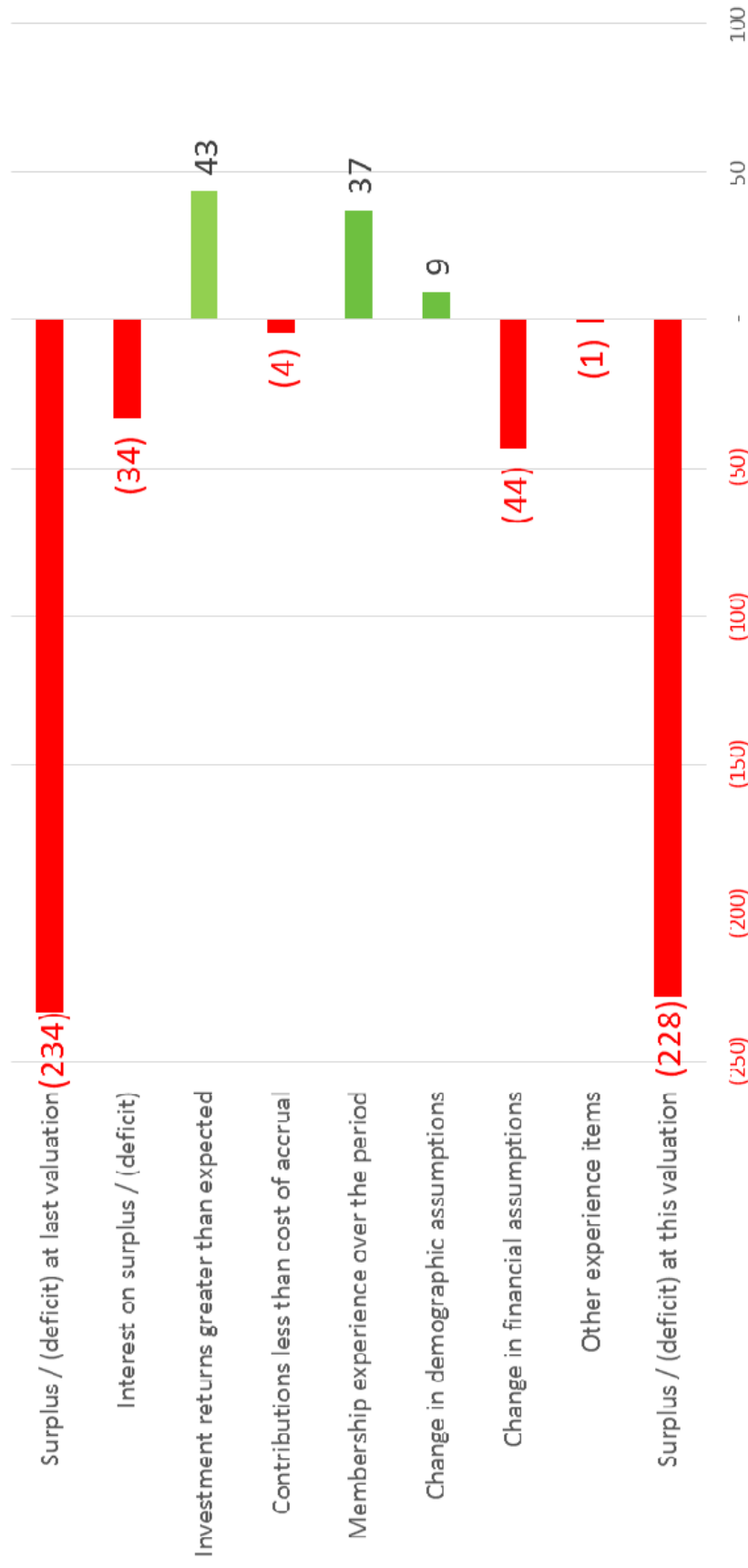
Whole fund valuation results

	31 March 2013	31 March 2016
Active	293m	275m
Deferred	133m	171m
Pensioner	360m	444m
Total liabilities	786m	889m
Assets	552m	661m
Deficit	(234m)	(228m)
Funding level	70%	74%

Deficit has fallen slightly in cash terms

Why has the funding position changed?

Analysis of Surplus/(Deficit) from 2013 to 2016

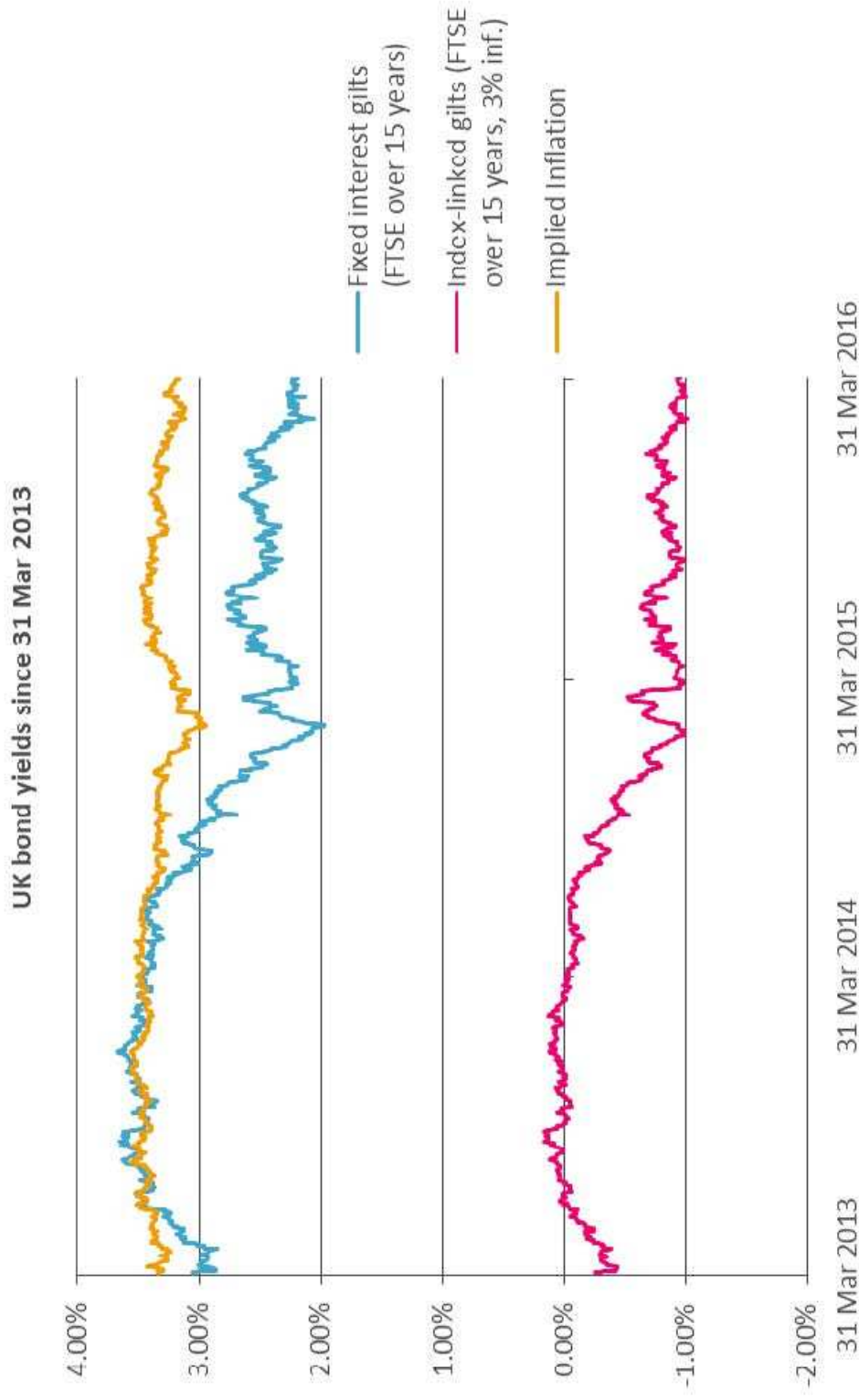


Membership experience

- **Pay growth**
 - Lower than expected
 - Does vary across employers
- **Pension increases (pension increase orders)**
 - Expected 2.5% p.a. (7.7%)
 - Actual 2.7%, 1.2%, 0.0% (3.9%)
- **Movements**
 - Fewer ill health retirements than expected
 - Fewer early leavers than expected
 - Fewer pensioner deaths than expected
- **50:50 take-up**
 - Lower than expected

Details, not the headlines

Experience since 2013



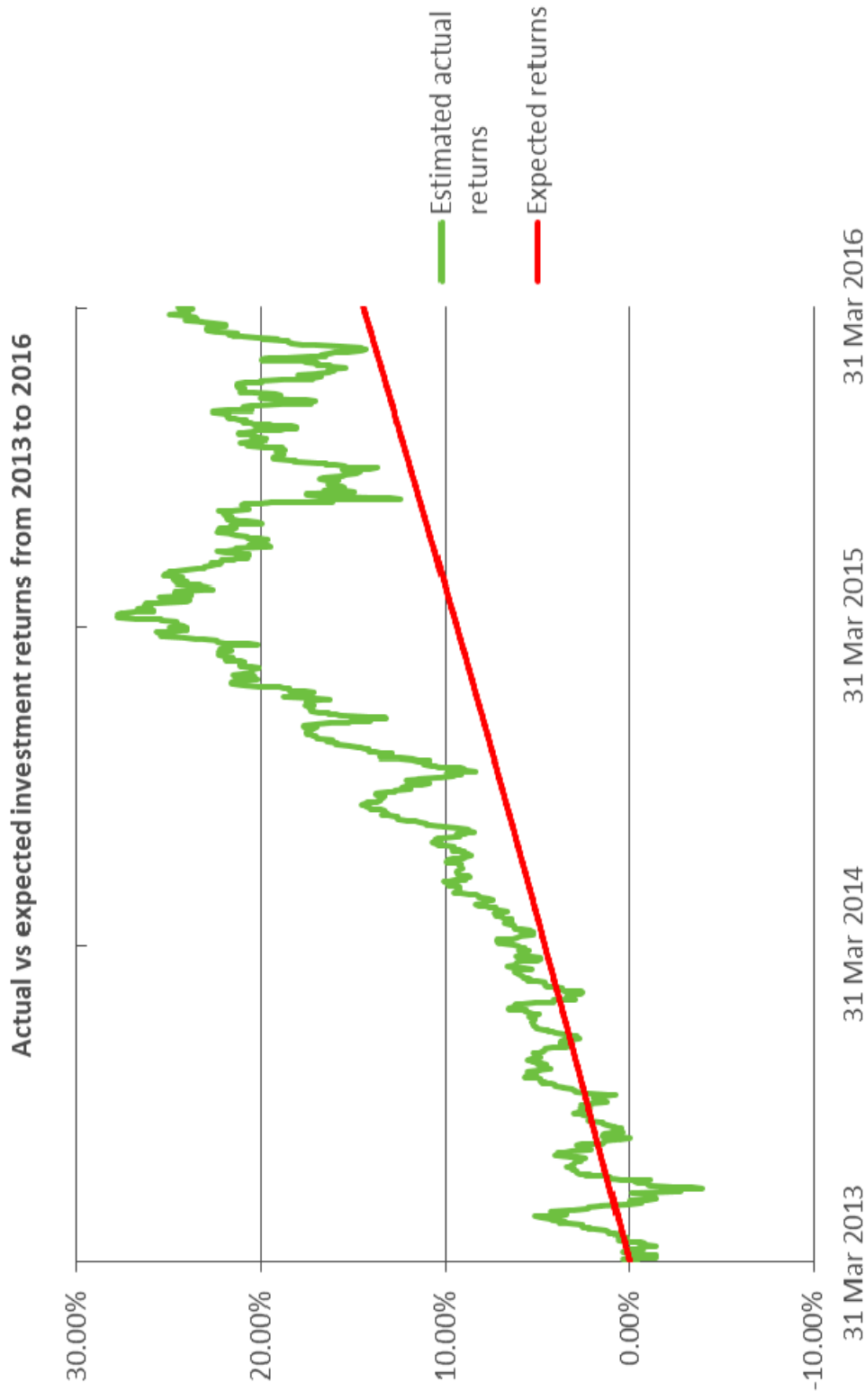
Falling bond yields have increased liabilities...

11

Source: Hymans Robertson statistics based on index returns

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Experience since 2013 (cont.)



...but asset returns have been stronger than expected

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Outlook for financial markets

- Yes to
 - Heightened uncertainty and
 - Increased Sterling volatility

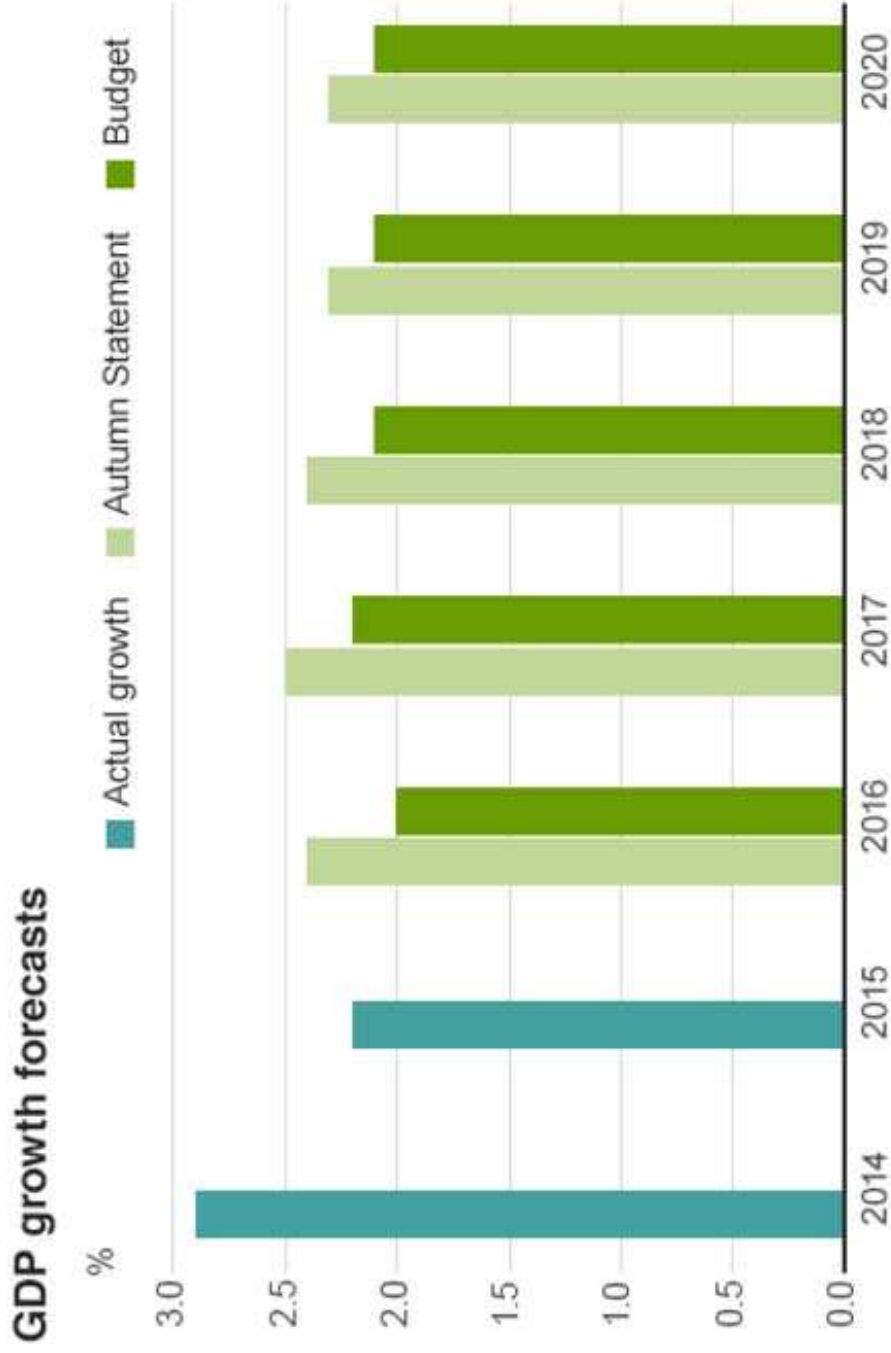
BUT....

- Many concerns pre-date the Brexit result

“Economic growth in the developed world since the Financial Crisis has been slower than at any comparable period except the Great Depression” GMO, 2016

- OBR growth forecasts cut in Spring budget 2016

Lower expectations for growth



Source: ONS and OBR



What does this mean for asset returns?

“Projected return forecasts for 2016 – 2026 have fallen for developed market government bonds, investment grade credit, high yield bonds and global equity markets”

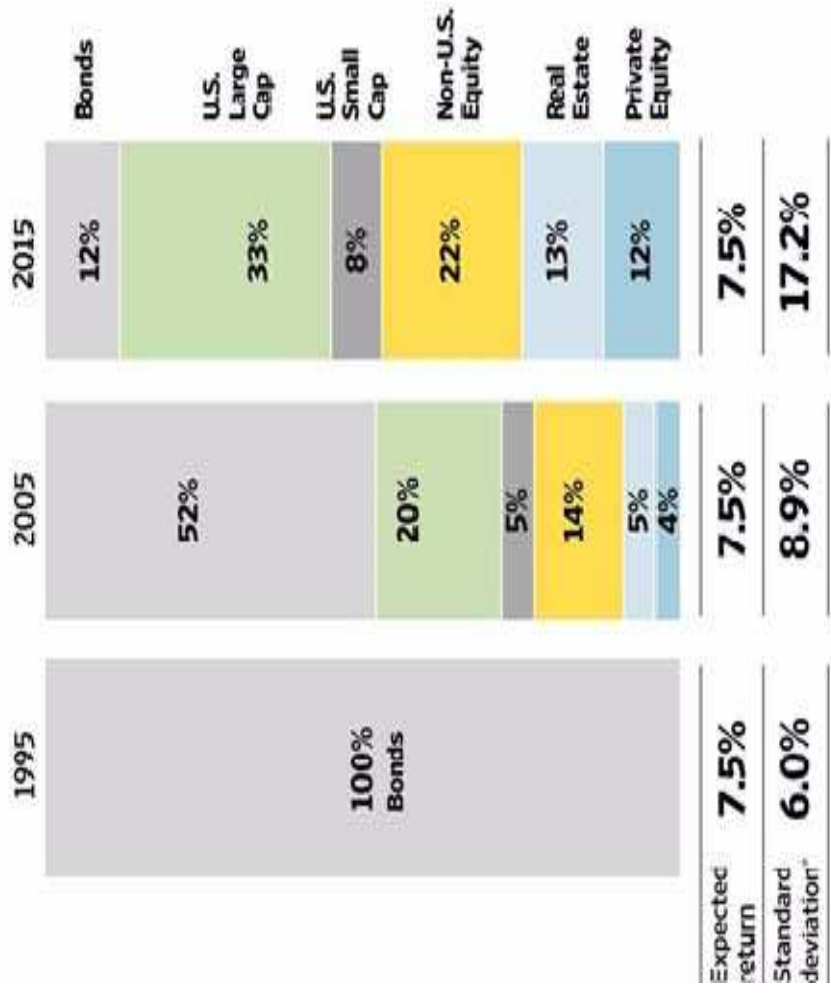
Baillie Gifford, 2016

“Our 2016 assumptions anticipate a challenging investment environment as policy and economic conditions globally continue to diverge and many asset returns fall short of those achieved over the past 30 years.”

JP Morgan 2016

What this means for investors (example)

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary
Source: Calan Associates

THE WALL STREET JOURNAL

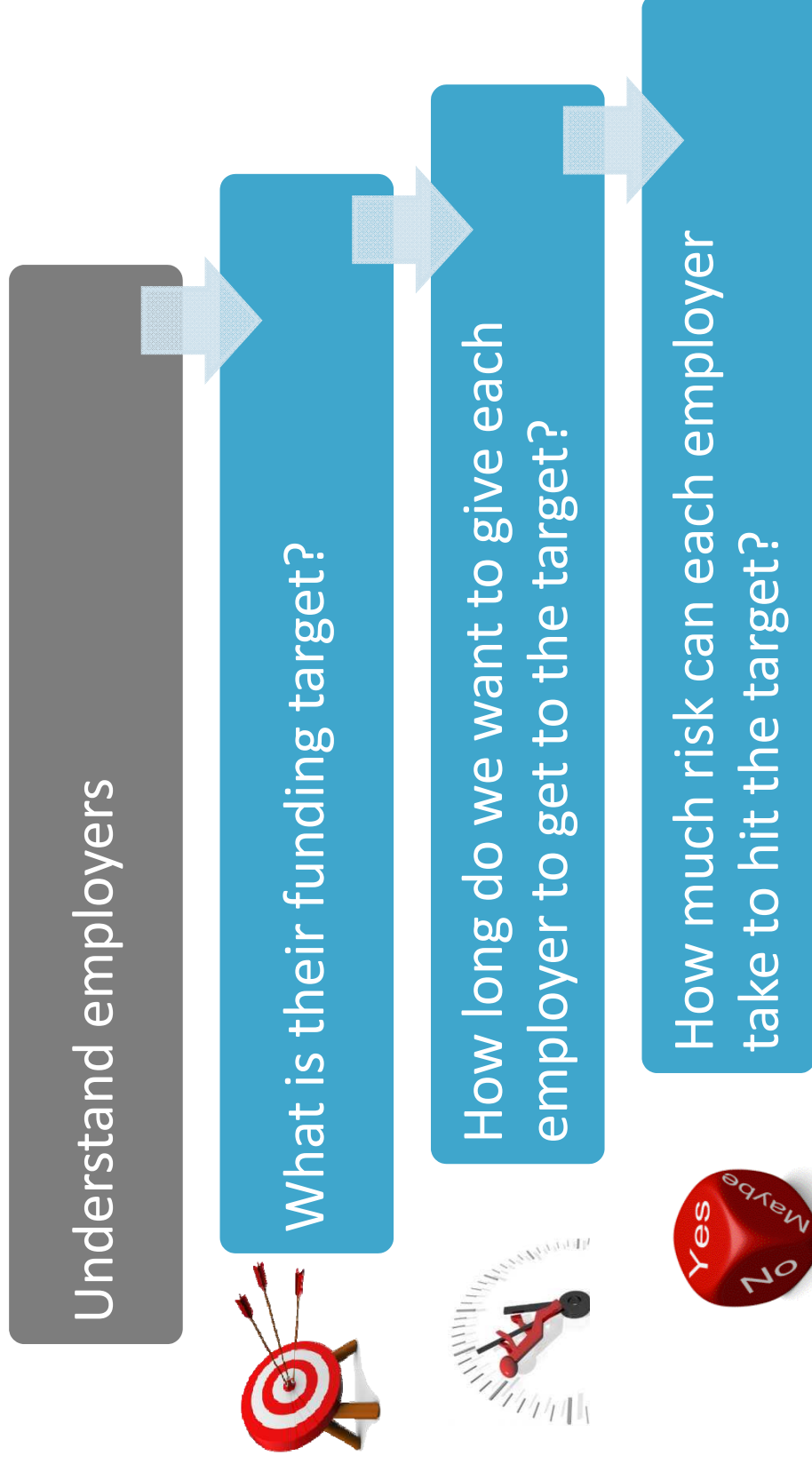
More risk needed to generate the same returns

Next steps

17

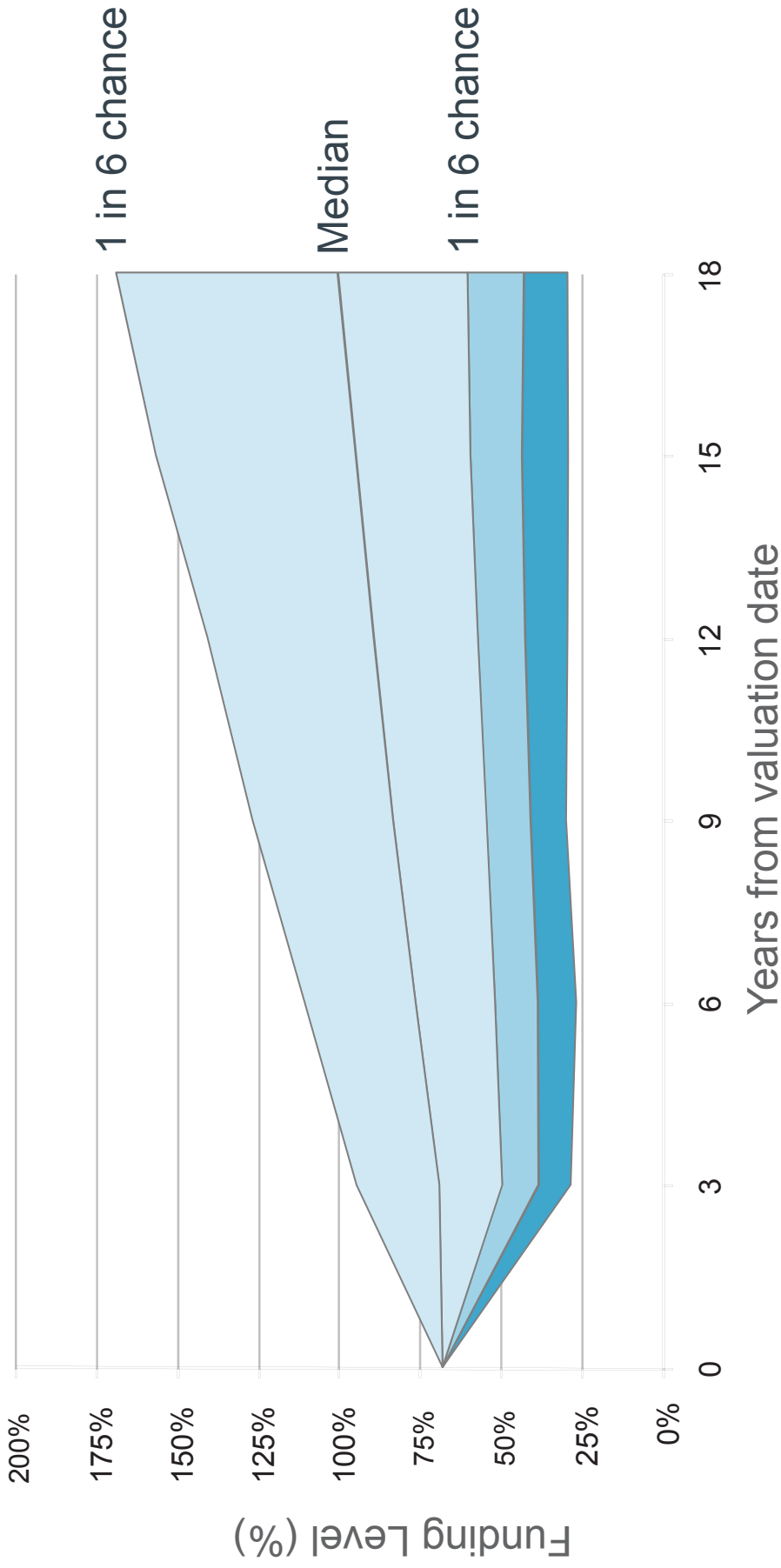
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Setting employer contribution rates





Setting contribution rates: Harrow Council



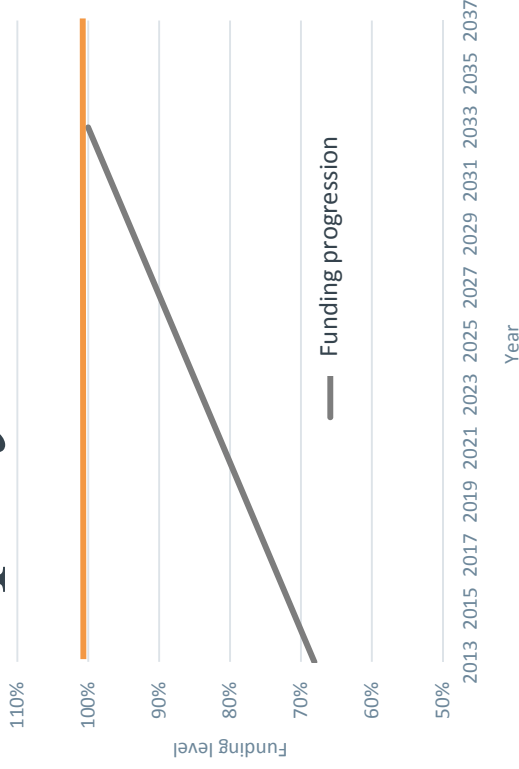
Need a good change of meeting funding objective to be prudent

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Source: Hymans Robertson LLP, comPASS, sample output

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Setting contribution rates: other employers



The 'old' world

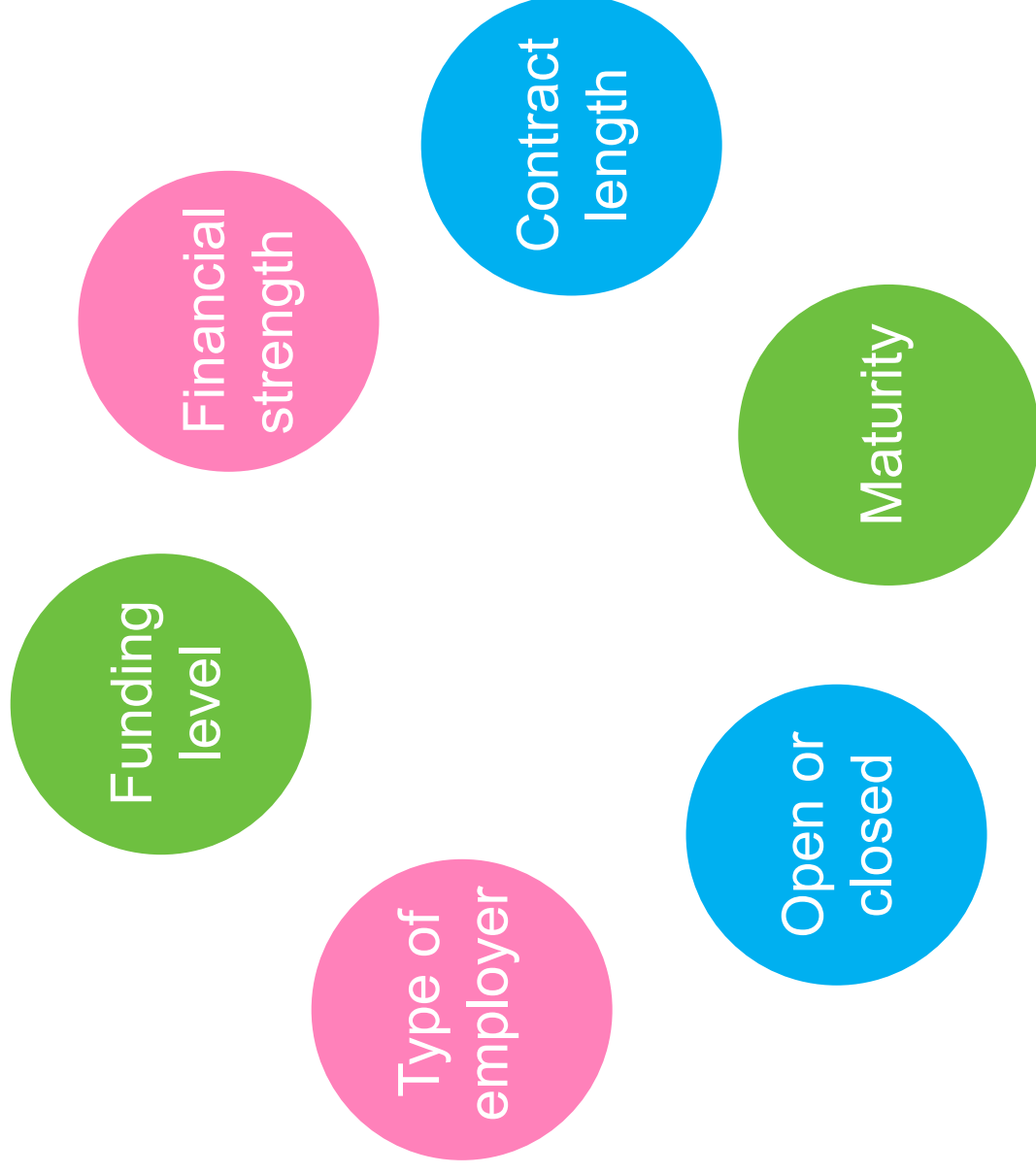
Risk based contribution rate strategies set for all



The 'new' world

CONTRIBUTION STRATEGY	LONG TERM LIKELIHOOD OF SUCCESS	AVERAGE OF THE WORST 5% OF FUNDING LEVELS IN 2035
Strategy 1	58%	39%
Strategy 2	77%	55%
Strategy 3	67%	45%

Recognising all employers are different



Funding Strategy Statement review

3.3 The different approaches used for different employers

Type of Employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Council Pool	Academies	Open to new entrants	Closed to new entrants	
Sub-type					(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)	Ongoing, assumes long-term Fund participation (see Appendix E)	Ongoing, but may move to "gilt basis" - see Note (a)	Ongoing, but may move to "gilt 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 (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	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	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations	None	None	None
New employer	n/a	Note (g)	Note (h)	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 LGFS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGFS. 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 (i) .	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 (i) .	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis.



Contribution rate definitions

- **Primary Contribution Rate**
- This refers to the cost of new benefits being earned by members. This was previously referred to as the Future Service Rate.
- **Secondary Contribution Rate**
- This refers to the contributions required to repair an employer's deficit (surplus). This was previously referred to as Deficit Recovery Contributions





Public Service Pensions
(Record Keeping) Regulations



HM TREASURY

The Pensions
Regulator

Governance and administration of
public service pension schemes



Local Pension Board

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Scheme Advisory Board



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The two “regulators”



Regulator	SAB	DCLG (GAD)
Powers?	Influence	Statutory
Request valuation info by	30 Sep 2016	Q2 2017
What requested?	Basket of Key Performance Indicators	Different Key Performance Indicators
Actuarial basis	HMT	Different
Publish results?	Possibly, in Q3 2016	Probably, in mid-2018



Whole fund valuation results – SAB basis













	31 March 2016 (funding basis)	31 March 2016 (HMT basis)
Active	275m	221m
Deferred	171m	128m
Pensioner	444m	377m
Total liabilities	889m	726m
Assets	661m	661m
Deficit	(228m)	(65m)
Funding level	74%	91%

Funding basis is deliberately prudent – GAD have noted

HMT basis isn't suitable for funding purposes

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2016 progress report

Event	Timescale	Progress
Assumptions agreed with Pensions Committee	21 June 2016	
Data received and cleansed	June/July 2016	
Whole fund results issued to officers	10 August 2016	
Whole fund results discussed with Pensions Committee	6 September 2016	
Employer results issued to officers	16 September 2016	
Submission of results to Scheme Advisory Board	30 September 2016	
Contribution strategies tested using ALM	Early October 2016	
Employer surgeries held	18 October 2016	
Pension board	2 November 2016	
Funding strategies reviewed with Pensions Committee	22 November 2016	
Final employer results and Funding Strategy Statement agreed	February/March 2017	
Sign off valuation report and R&A	31 March 2017	

Thank you

Reliances and Limitations

- This presentation is addressed to the Pensions Committee of the London Borough of Harrow Pension Fund for its sole use as Administering Authority and not for the purposes of advice to any other party; Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness.
- This presentation discusses the current issues in the LGPS and was prepared purely for illustration to employers. Hymans Robertson LLP accepts no liability for any other purpose of this presentation.
- The following Technical Actuarial Standards* are applicable in relation to this presentation and have been complied with where material:
 - TAS R – Reporting;
 - TAS D – Data;
 - TAS M – Modelling; and
 - Pensions TAS.

* Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council and set standards for certain items of actuarial work, including the information and advice contained here.

Appendix

Results are sensitive to assumptions about the future

Financial assumptions

		Benefit Increases		
Discount Rates		2.0%	2.2%	2.4%
4.0%	(179) 79%	(204) 76%	(229) 74%	(Deficit) Funding Level
3.8%	(203) 76%	(228) 74%	(254) 72%	(Deficit) Funding Level
3.6%	(228) 74%	(254) 72%	(280) 70%	(Deficit) Funding Level

Demographic assumptions

		Peaked improvements	Non-peaked improvements
(Deficit)	(228)	(249)	
Funding Level	74%	73%	

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REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: **Information Report** - London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Annual Audit Letter 2015/16 (KPMG)
Management Expenses

Section 1 – Summary

Summary

This report presents the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016 together with the Annual Audit Letter 2015/16 of the auditors KPMG and answers to queries raised by the Board at their previous meeting.

For information

Section 2 – Report

1. At their meeting on 28 June 2016 the Board received the Pension Fund draft Annual Report and Financial Statements for the year ended 31 March 2016.

2. They were advised that the audit of the Accounts by KPMG LLP would commence in July. The results of the audit were considered as part of the Council's overall Accounts by Governance, Audit, Risk Management and Standards Committee on 8 September 2016. They will be recommended for agreement by the Pension Fund Committee on 22 November.
3. The Board were additionally advised that the audited accounts together with the Auditor's report would be presented to the Board at its next meeting.
4. The accounts can be accessed at:

[http://www.harrow.gov.uk/info/200110/council budgets and spending/698/statement of accounts/2](http://www.harrow.gov.uk/info/200110/council%20budgets%20and%20spending/698/statement%20of%20accounts/2)

5. The audit of the Pension Fund Accounts was conducted at the same time as that of the rest of the Council's Accounts. In their "External Audit Report 2015/16 – London Borough of Harrow and Harrow Pension Fund" and subsequent letter (copy attached) KPMG make relatively few references to the Pension Fund with the key points as follows:

- We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Council's Statement of Accounts and the Pension Fund Annual Report by 30 September
- The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.
- Our audit of the Fund's financial statements for the year ended 31 March 2016 has not identified any misstatements that have been corrected in the final version of the accounts which we believe should be communicated to you.
- We are pleased to report that there are no uncorrected audit differences
- Our audit work included a detailed consideration of the Actuary's valuation and we performed substantive testing over the completeness and accuracy of data provided to the Actuary as the basis for their valuation. We are satisfied with the reasonableness of the actuarial valuation and its reflection in the year end accounts.

6. The Auditors made only one recommendation in relation to the Fund as follows:

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back (sic) account effective 1 April 2011. Specifically the regulations state the following: "On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation — (a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund."

Although a separate bank account has been set up for the Fund, it is not being used for all pension fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Council's bank account. As a result, the Fund is not fully compliant with the requirements of the legislation.

It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We recommend the Fund amends all historic processes to ensure all pension fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.

Officers were not able to accept this recommendation and commented as follows:

In accordance with the legislation the separate bank account was opened from 1 April 2011 and, since then, an increasing number of transactions have been processed directly through the account. These include the pensioners' payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and income from the property investment manager. The account is reconciled monthly.

Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Council's bank account are identified. A monthly cash transfer is made from the Council into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Council's accounts.

From the time the account was established every effort has been made to maximise its use consistent with the Council's existing systems and the costs and risks associated with changes. This will continue to be the case.

However, the Council uses a commercial software package (SAP) and substantial support would be needed from them to make any system changes necessary. For all transactions to go directly through the Pension Fund account, changes would be necessary for the following processes: accounts payable / purchase orders; accounts receivable; VAT; payroll tax deductions; manual cheque payments; receipt of foreign currency payments.

The Council is of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail certain costs and uncertain risks which cannot be justified at this time.

7. At their meeting on 28 June 2016 the Board raised specific queries detailed with comments below.

7.1 Query - The Board expressed concern in terms of the time it took for the changeover in Fund managers and suggested that the Authority should have a process whereby it could react more quickly.

7.1 Comment - At the meeting of the Pension Fund Committee on 6 September 2016 the Chair asked officers to expand on the concern raised by the Board and others attending the meeting raised similar concerns. A report on the issues will be presented to the next meeting of the Committee on 22 November but the Committee will be reminded that, when necessary, a “special” meeting can already be called at short notice. This facility has been used twice in the last in the last two years.

7.2 Query - Referring to the 34% of the Fund invested in SSGA MPF All World Equity Index Sub-Fund, a member of the Board stated that this was a sizeable amount in one Fund. The officer advised that this was the ‘backstop’ for the equity strategy.

7.2 Comment - Having considered its Funding Strategy Statement, return aspirations and risk appetite the Committee has agreed that 62% of the Fund should be invested in Global Equities with an acceptable range of 58-68%. To control the risk within this allocation, half the investments are made with “active” fund managers with the remainder (34% in the Annual accounts) in the “passive” SSGA MPF All World Equity Index Sub-Fund where returns will be exactly in line with the movement of Global equities. The Committee is satisfied that this investment remains in line with its current Strategy.

7.3 Query - The officer undertook to provide details of the figures omitted in relation to the actuarial present value of promised retirement benefits and also details of the oversight and management costs (Note 10).

7.3 Comment -

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £88m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £21m • a one-year increase in assumed life expectancy would increase the liability by approximately £28m

7.3 Comment - Attached is an analysis of administrative costs, investment and management expenses and oversight and governance costs as summarised in Note 10 to the Accounts.

7.4 Query - In response to a question as to the number of scheduled or admitted bodies which owed money to the Fund at the end of the year the officer commented that there was at least one and that he would provide Board members with a full list. The Pension Regulator had said that there should be a note about this in the accounts and annual report.

7.4 Query – Please provide a breakdown of the entries in Note 17 in respect of two of the debtors categories

7.4 Comment –

	£'000	£'000
<u>Other local authorities</u>		
LB Harrow		1,752
<u>Scheduled/Admitted bodies</u>		
Alexandra School	12	
Park High School	31	
Salvatorian College	16	
St Bernadette's School	6	
St Dominic's College	24	
Stanmore College	42	
North London Collegiate School	44	
Carillion Services	15	
Chartwells	4	
Sopria Steria	9	
Others	<u>5</u>	
		208

All the sums outstanding from the scheduled/admitted bodies were routine contributions which were received by the statutory deadline of 19 April.

Financial Implications

8. Whilst this report discusses all aspects of the financial standing of the Pension Fund there are no financial implications arising directly from it.

Legal Comments

9. Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority must produce an annual report containing certain specified matters. The report must be published before 1 December of the scheme year end.

Risk Management Implications

10. All risks are included within the Pension Fund Risk Register.

Equalities implications

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

Council Priorities

12. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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Section 4 - Contact Details

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

Background Papers – None



Annual Audit Letter 2015/16

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London Borough of Harrow

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DRAFT - October 2016



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Report sections

— Headlines

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Appendices

1. Key issues and recommendations
2. Summary of reports issues
3. Audit fees

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at London Borough of Harrow in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangement to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> — The Authority has significant savings targets to achieve in the coming years. The 2015/16 MTFP taken to the February 2015 Council meeting highlighted a finding gap of c.£23m for 2016/17 and c.£15m and c.£14m in 2017/18 and 2018/19 respectively. — In addition, the Authority has low general fund reserves of £10m. — We considered the budget setting and monitoring process, including how saving targets are monitored and reported. We reviewed a sample of specific savings targets and confirmed that there was adequate challenge and monitoring of the savings throughout the year. — We also considered the level of reserves, whilst we note that the Authority's reserves are low in comparison to other London Borough's, the low level of reserves is within the Council's financial plan and is a conscious decision. At the end of 2014-15 the General Fund Reserve balance was £10m. This remained consistent throughout 2015-16. As the reserves balance has not moved in year this demonstrates that the council was able to achieve its year end position without the use of its reserves. — We found the controls in place over financial planning and budget monitoring to be robust, however we did raise two medium priority recommendations in relation to improving the monitoring and reporting process of savings going forward.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	<p>Our audit, identified a total of four audit adjustments, that required reporting, these had a total value of £12.7 million. The largest of these adjustments was for £11.7m and related to the classification of PPE assets between operational and surplus assets.</p> <p>The remaining audit adjustments were not adjusted by management as they do not have a material impact on the financial statements. These uncorrected adjustments relate to PPE and include the omission of two assets from the revaluation cycle and the miscalculation of depreciation on PFI assets.</p> <p>We raised a total of 14 recommendations as part of our audit, all apart from one have been accepted by Management and have action plans in place to ensure they are implemented ahead of the year end.</p>

Headlines (cont)

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. We raised one high priority recommendation in relation to fully utilising the Pension Fund bank account for all pension transactions.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	<p>We raised three high priority recommendations as a result of our 2015/16 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. Our three high priority recommendations related to:</p> <ul style="list-style-type: none"> — The quality and review of PPE; — The processing of journals; and — Fully utilising the Pension Fund bank account. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	There is one outstanding objection relating to the 2014-15 accounts that we inherited from the previous Auditors. This objection remains outstanding as at the date of this report. As a result the 2014-15 certificate has not yet been issued and we are unable to issue our 2015-16 certificate until this objection is closed.
Audit fee	<p>Our fee for the 2015/16 audit of the Authority was £150,725 excluding VAT and £21,000 excluding VAT for the Pension Fund. This fee was in line with that highlighted within our audit plan agreed by the Governance, Audit, Risk Management and Standards Committee in January 2016. Our fee for the certification of grant claims for Housing Benefits is £27,735 excluding VAT.</p> <p>Fees for other grants and claims (Teachers Pension and Pooling Capital Receipts) are £6,500 excluding VAT.</p>

Appendix 1: Key issues and recommendations

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No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Quality and review of PPE</p> <p>Our final accounts audit identified a number of proposed adjustments to the PPE balance which we would expect management to have identified as part of their review of the financial statements. The adjustments included:</p> <ul style="list-style-type: none"> ▪ The omission of two assets from the revaluation process despite being recorded as requiring a full inspection in year ▪ Annual depreciation charge for PFI assets calculated post year end revaluation ▪ £11.72m of assets incorrectly classified as operational land and buildings <p>We recommend going forwards the Council performs a thorough review of the PPE balance to identify similar avoidable adjustments prior to submitting the accounts for audit. Checks of accuracy of data input and reconciliations to ensure the completeness of the information provided should be performed. The Council should ensure a robust quality review process is in place ahead of the 2016/17 year end audit to identify avoidable misstatements in the accounts.</p>	<p>Accepted</p> <p>Officers acknowledge the recommendations raised and the need to improve certain procedures and processes. To prevent such occurrences happening again additional controls (reconciliations / review of accounting guidance) will be implemented.</p> <p>Responsible Officers: Head of Corporate Estate / Technical Accounting Manager Due Date: February 2017</p>
2	<p>Processing of Journals</p> <p>Our documentation of the Council's journals processes identified a central finance team who post all journals required for both the Council and the Pension Fund. Journals are requested and authorised by appropriate individuals throughout the Council, however only the central finance team are able to post these journals onto the ledger.</p> <p>While this demonstrates strong segregation of duties in the control, from our discussions with the Council we understand there is no process to review the completeness and accuracy of the journals posted by this team. Without an independent review there is a risk that fraudulent, erroneous or inaccurate journals are posted. The risk of inappropriate journals being authorised is mitigated from the Council's monthly budget monitoring processes however this is only likely to identify large journals.</p> <p>We recommend the Council introduce a control to perform a sample review of journals posted on a monthly basis to ensure the journal posted was requested by an appropriate individual in the Council and has been posted accurately, in line with the initial request.</p>	<p>Accepted</p> <p>Officers have already identified the need and recently put in place a monthly sample testing and review of journals. The review currently under taken by the interim Technical Accounting Manager checks the accuracy, validity and correct authorisation of the journal. The testing will also assess the completeness of supporting documentation.</p> <p>Processing of journals will be discussed at the next Finance Team meeting and training provided where required</p> <p>Responsible Officer: Interim Technical Accounting Manager Due Date: Implemented (August 2016)</p>

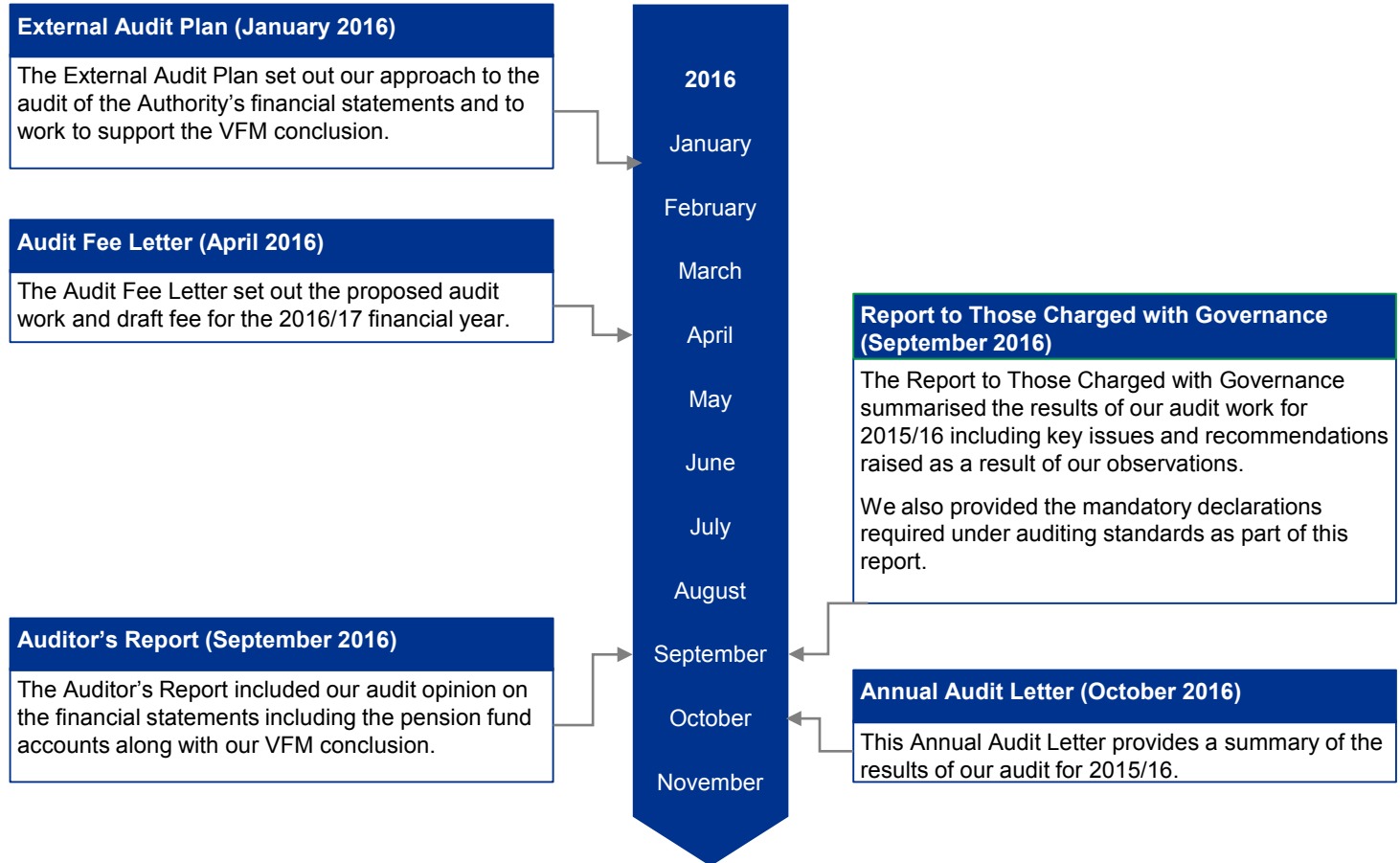
Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Use of Pension Fund bank account</p> <p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following: “On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —(a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund.”</p> <p>Although a separate bank account has been set up for the Fund, it is not being used for all pension fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Council’s bank account. As a result, the Fund is not fully compliant with the requirements of the legislation.</p> <p>It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We recommend the Fund amends all historic processes to ensure all pension fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.</p>	<p>Not Accepted</p> <p>In accordance with the legislation the separate bank account was opened from 1 April 2011 and, since then, an increasing number of transactions have been processed directly through the account. These include the pensioners’ payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and income from the property investment manager. The account is reconciled monthly.</p> <p>Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Council’s bank account are identified. A monthly cash transfer is made from the Council into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Council’s accounts.</p> <p>From the time the account was established every effort has been made to maximise its use consistent with the Council’s existing systems and the costs and risks associated with changes. This will continue to be the case.</p> <p>However, the Council uses a commercial software package (SAP) and substantial support would be needed from them to make any system changes necessary. For all transactions to go directly through the Pension Fund account, changes would be necessary for the following processes: accounts payable / purchase orders; accounts receivable; VAT; payroll tax deductions; manual cheque payments; receipt of foreign currency payments.</p> <p>The Council is of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail certain costs and uncertain risks which cannot be justified at this time.</p> <p>Responsible Officer: Interim Treasury and Pension Fund Manager</p>

Appendix 2: Summary of reports issued

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This appendix summarises the reports we issued in 2016. These reports can be accessed via the Governance, Audit, Risk Management and Standards Committee pages on the Authority's website at www.harrow.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £150,752, which is in line with the planned fee.

- An additional fee in relation to consideration of a formal objection to the 2014-15 accounts will be charged following the completion of our work. This fee will be agreed with the Authority and the Public Sector Audit Appointments once our work is completed.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

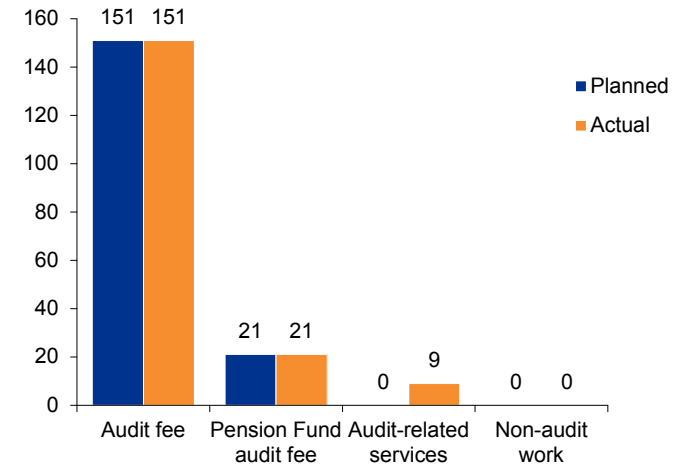
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

Other services

We charged £6,500 excluding VAT for additional audit-related services for the certification of the Pooling of Capital Receipts grant claim and the Teachers Pension return, which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2015/16 (£'000)





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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	2015-16		2014-15
	£'000	£'000	£'000
Management Expenses			
Administrative costs			
Pensions administration and central recharges		338	345
Computer software		174	254
Administrative expenses		97	198
LAPFF and PLSA (ex NAPF) fees		11	11
Other		22	15
TOTAL		642	823
Investment management expenses (fees shown as %)			
State Street			
UK (First £100m @ 0.05%, thereafter @ 0.04%)			
All World (First £100m @ 0.07%)	70		
All World (Thereafter @ 0.06%)	67		
TOTAL		137	93
(Average assets 2015-16: £220m)			
GMO			
Between £32m and £80m 0.90%		579	224
(Average Assets 2015-16 £74m)			
Longview			
First £25m @ 0.75%	188		
Next £25m @ 0.65%	163		
Next £75m @ 0.60%	144		
TOTAL		495	403
(Average assets 2015-16 £76m)			
Oldfield Partners			
0.90% with a 0.15% rebate monthly.		667	234
(Average assets 2015-16 £74m)			
Fidelity			
0.25%			271
Rebates			350
Wellington			
First £20m @ 0.65%			
Next £30m @ 0.50%			
Thereafter @ 0.45%			
TOTAL			376
Rebates			253
BlackRock			
(First £10m @ 0.35%, thereafter @ 0.15%)		147	140
(Average assets 2015-16 £87m)			
Aviva			
Fund of Funds fee of 0.214%	111		
Underlying managers assume 0.75%	363		
(Average assets 2015-16 £52m)		474	433
Insight			
0.40%		110	22
(Average assets 2015-16 £28m)			
Standard Life			
0.75%		226	220
(Average assets 2015-16 £30m)			
Barings			
0.91%			208
Pantheon			
0.75% of committed capital	299		
Underlying managers average 2.25% management fee	265		
TOTAL		564	526
Record			
Fixed fee prior to 2014. From 2014-15 0.03% p.a of the mandate size.		28	21
JP Morgan custody		25	1
TOTAL		3,452	2,569
Oversight and governance costs			
WM Performance Services	22	20	
Hymans Robertson Actuary	107	68	
Aon Hewitt Investment Adviser	109	135	
Independent advisers	30	20	
Audit fees	21	19	
Collective Investment Vehicle	25	50	
Finance support	205	240	
Other	17	14	
TOTAL		536	566
GRAND TOTAL		4,630	3,958

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REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: Status of Pension Board / Insurance Arrangements

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: The Need for Pension Board Liability Insurance (Aon Risk Solutions)

Section 1 - Summary

Summary

This report further advises the Board of its formal status and asks members to consider the insurance implications arising therefrom.

For information

Section 2 – Report

1. At the first meeting of the Board on 25 June 2015 members were advised that the Terms of Reference agreed by the Council stated that “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.”
2. At the same meeting the Board also received a report advising them of the Code of Conduct for Councillors and asking them to agree to abide by it. The consideration by the Board was minuted as follows:

Members of the Board made a number of comments during this item as follows:

- *the legal advice received explaining that Board Members should abide by the Councillors Code of Conduct was required before any formal agreement. This did not seem to accord with the information relating to the establishment of Pension Boards;*
- *practice on this issue seemed to vary nationally and this had not been a requirement for other members on different Pension Boards.*

The Treasury and Pension Fund Manager explained that his legal advice was that the Board were co-optees and that the Code of Conduct should apply.

The Chair asked that the issues raised be investigated and reported back to the Board before any further action.

3. The matter was further considered at the Board’s meeting on 2 November 2015 when the Council’s legal adviser, HB Public Law, advised that “The Code (The Council’s Code of Conduct for Councillors) is clear that it applies to co-opted members and appointed members.” The discussion of the Board was minuted as follows:

The Board received a report of the Director of Finance which set out additional advice from the Council’s legal adviser regarding the requirement for Board Members to sign up to and abide by the Council’s Code of Conduct.

An officer advised that Board Members would be subject to the protocol on co-optees and advisors as set out in the Council’s Constitution, and would therefore be required to disclose any pecuniary, non-pecuniary and conflicts of interests at Board meetings. He added that this requirement had been communicated to Board members at the time of their appointments and was also laid out in the Board’s Terms of Reference.

A member of the Board stated that, in his view, the statutory definition of a conflict of interest did not correspond with that in the Council’s Constitution and that disclosable pecuniary and non-pecuniary interests were not the correct test to apply to Board members’ interests and the Council’s Code of Conduct could not override existing legislation relating to the conduct of Board members.

Following further discussion, Board members indicated that they were agreeable to signing the Council’s Code of Conduct.

4. The consideration of these matters at the Board was clearly being replicated within other administering authorities to the extent that the Local Government Association instructed James Goudie QC to advise. In his advice of 7 December 2015, the introduction is as follows:

I am instructed to advise the Local Government Association (“the LGA”) on three, related, questions:-

- (1) The legal status of a Local Government Pension Scheme (“LGPS”) Pension Board;*
- (2) The legal relationship between such a Pension Board and the “scheme manager”; and*
- (3) The “conflict” described below.*

5. Both at Harrow’s Board meetings and outside, members have expressed concern as to the status of the Board and the insurance arrangements for the members. Mr Goudie comments on both these matters in paragraph 44 of his advice as follows:

As regards insurance:-

- (1) Given that a Pension Board is a creature of the 2013 Act and not a council committee, the council’s indemnity insurance will not automatically cover the Pension Board’s membership;*
- (2) There may nonetheless be circumstances in which the Pension Board’s members would be potentially liable; and*
- (3) Therefore –*
 - (i) The Council should extend its insurance, or*
 - (ii) The Pension Board should procure its own insurance.*

6. The Council has always understood that the Board is set up under the Public Service Pensions Act 2013. This is clear in paragraph 2 of the Terms of Reference with the responsibility of the Board described as “to assist the Administering Authority.....in ensuring the effective governance and administration of LGPS.” This was also made clear to the Council at its meeting on 13 November 2014.

7. It is accepted that the Board is not a Council committee and that it has no decision making functions. Notwithstanding this, for the sake of efficient administration it is considered appropriate to use as many of the Council’s processes as possible. In particular, the “Standards of conduct and conflicts of interest” paragraph of the Terms of Reference states:

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

This is seen as a pragmatic solution to the issues raised by the establishment of the Board as is the servicing of the Board in the same

way as that of Council committees. Whilst the Board does not have a budget of its own it receives an appropriate level of officer support and the advice of external advisers (eg Hymans Robertson) as it requests.

8. As regards insurance, the Council's Insurance Manager has been consulted and has advised: *that Harrow's existing insurance arrangements do not cover the Pension Board's membership, as the Board is not a Council committee. Notwithstanding this it is difficult to foresee how a claim could arise against the Board's membership given that it provides a scrutiny function and has no direct decision making authority. This view is held by the Council's insurers and the other boroughs within the Insurance London Consortium, who were also asked to consider the position. It has, however, recently come to our attention that a firm of insurance brokers is currently looking to develop a new insurance product specifically for Pension Boards. As soon as further information is made available in this regard the position will be reviewed.*
9. The "brokers" to whom the Insurance Manager refers are Aon Hewitt who, on 20 September 2016 wrote to the administering authorities as follows:

As many of you will have seen in our recent newsletter we have been working with our colleagues in Aon Risk Solutions to develop an insurance product that will provide cover for members of Pension Boards.

Many people are questioning whether Local Pension Boards need to be covered; our risk colleagues suggest that, while the risk may be considered remote, in their view there is an exposure as current Liability Policies do not provide any cover for Local Pension Boards. It is for that reason that they have developed a policy specifically for Local Pension Boards with an insurance provider (Chubb/Ace) and a summary sheet is attached [attached to this report] with a bit more information. My colleagues can obtain a premium quote for you if it would be helpful (and I would then leave you to liaise directly with them as any quotations and formalising a contract must be done in line with compliance requirements). If you require more information in relation to the Aon developed solution, please let me know and I can obtain a quotation/put you in touch with my colleagues at Aon Risk Solutions.

10. The Board are asked to consider whether they wish officers to obtain premium quotes as offered by Aon Hewitt.

Financial Implications

11. Any costs arising from the purchase of an insurance policy to cover the Board would be met from the Pension Fund.

Risk Management Implications

12. The report refers to risks potentially being run by the Pension Board and its members and discusses ways of alleviating them.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date:	20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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Section 4 - Contact Details

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

Background Papers - None

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The need for Pension Board liability insurance

Local Pension Boards are established under the Public Services Pensions Act 2013 and have been established in order to assist the Administering Authority of a Local Government Pension Scheme to:

- Comply with:
 - The LGPS Regulations 2015
 - Any other legislation relating to the governance and administration of the Scheme
 - Any requirements imposed by the Pensions Regulator
- Ensure effective and efficient governance and administration

However, according to the legal opinion obtained by the LGA from James Goudie QC, the Pension Board itself is not a council committee and therefore there is uncertainty as to whether members of the board are officials who fall within the scope of the councils own indemnity provisions.



[For more information](#)

Insurance of Local Pension Boards

Since the implementation of the Public Service Pensions Act 2013, Aon clients have queried the extent of insurance cover for members of the Pension Boards, and Aon have been in discussion with different insurers to ascertain whether current Officials Indemnity or liability policies can be extended to include such insurance. Many policies contain exclusions relating specifically to claims arising out of a breach of fiduciary duty, responsibility or obligation in connection with any employee benefit or pension plan, and there is some reluctance to extend the scope of cover.

Furthermore any claim under an Officials Indemnity policy is subject to the applicable deductible, but the Authority may be unable to indemnify the individual, leaving the board member personally liable for costs within the deductible. Deductibles for Administering Authorities typically range from £50,000 to £250,000.

To fulfil requirements for certainty of insurance cover, Aon have developed in conjunction with a leading insurer a pension liability policy specifically designed to provide protection to Local Pensions Boards and the personal liability of individual Pension Board members in the event of claims or investigations against them.

What is covered?	Extent of protection
<p>Loss – Insurers will pay for loss suffered as a result of claims made during the policy period for wrongful acts, such as breach of trust, breach of duty, breach of statutory provision, maladministration, neglect, administrative error or wrongful omission, misstatement, misleading statement or any other act committed or allegedly committed by an Insured in connection with their role as members of a Pension Board.</p> <p>Investigation expenses – investigations instituted during the policy period.</p> <p>Mitigation expenses – Expenses incurred in taking action to prevent, limit or mitigate exposure to an actual or potential claim.</p>	<p>Damages – i.e. judgements settlements and awards for which members are legally liable.</p> <p>Defence costs – legal costs and expenses incurred in defending claims brought against them.</p> <p>Investigation expenses – legal costs and expenses incurred in relation to an investigation connected with the Pension Scheme.</p>

Extensions of cover include:	
<ul style="list-style-type: none"> • Public Relations Expenses (sub limited)* • Civil Fines and Penalties to the extent permitted in law • Emergency Costs (sub limited)* • Extradition Proceedings Costs 	<ul style="list-style-type: none"> • Loss of Documents (sub limited)* • Prosecution Costs (sub limited)* • Third party provider pursuit costs

The policy is issued on a “claims made” basis meaning that only claims notified during the policy period are covered.

*Sub limits may vary based on the overall limit purchased. Sub limits form part of and are not in addition to the Limit of Liability.

Limit, deductible and cost	Key underwriting information
<p>Cost of cover is dependent on a number of factors including:</p> <ul style="list-style-type: none"> • Limit of Indemnity required (Limits up to 10m are available) • Size of the Pension Scheme assets • Number of members of the Pension Scheme • No deductible is payable by any individual insured 	<p>Quotations can be provided based on:</p> <ul style="list-style-type: none"> • Latest Pension Scheme accounts • Terms of reference for the Pension Board • Details of the members of the Pension Board • Details of training schedule for board members either undertaken or proposed • Subject to no known claims or circumstance

For full details of policy wording terms and conditions please contact your usual representative or Deborah Ball deborah.ball@aon.co.uk

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com/>

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REPORT FOR: Pension Board

Date of Meeting:	2 November 2016
Subject:	London Borough of Harrow Pension Board: Draft Annual Report to Council 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards Affected:	All
Enclosure:	Draft Annual Report to Council 2016

Section 1 – Summary and Recommendation

Summary

This report advises the Board of the need to prepare a report on their work to be presented to the Full Council on 1 December 2016 and provides a draft for their consideration (attached as an appendix).

Recommendation

The Board is recommended to agree a report on their work to be presented to the Full Council on 1 December 2016.

Section 2 – Report

1. The Terms of Reference of the Board require them to present a report on their work to the Full Council once a year. At their last meeting the Board received an initial draft for their consideration in advance of this meeting.
2. A revised draft is attached for the Board to consider and they are recommended to agree a final version to be presented to the Full Council on 1 December 2016.

Financial Implications

3. There are no financial implications arising directly from this report.

Risk Management Implications

4. All risks are included within the Pension Fund Risk Register.

Equalities implications

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

Council Priorities

6. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date: 20 October 2016		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 21 October 2016		

Ward Councillors notified:

**Not applicable as the
proposal affects all
wards**

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 BOARD
ANNUAL REPORT TO COUNCIL 2016**

Background

The Board was set up by 1 April 2015 in accordance with the requirements of the Public Service Pensions Act 2013.

The Act provides for the membership to be of equal numbers of “employer representatives” and “member representatives”. In addition we have an Independent Member.

Our Terms of Reference require us to present a report on our work to the Full Council once a year.

Meetings

We held our first meeting on 25 June 2015 and Richard Harbord and Gerald Balabanoff were appointed as Chair and Vice-Chair respectively for the remainder of the 2015-16 Municipal Year.

We have subsequently met on four occasions.

All five members of the Board have attended all except one of the meetings and Richard and Gerald were re-appointed to their posts on 28 June 2016.

Themes arising during the year were:

Role and Terms of Reference

At our first meeting we were provided with considerable background information on our establishment, role and Terms of Reference.

We understand our role and are generally happy with the generic nature of the Terms of Reference. However, our view is that we should meet more than twice a year and that the periods of office of the various members be staggered to avoid the potential loss of too much experience at one time.

The issue of payment to the Council officer who is a member of the Board and the level of payments to non-Council members were raised.

Knowledge and Understanding of the Local Government Pension Scheme

At our first meeting, we were advised of the knowledge and understanding of the Local Government Pension Scheme required of members of the Board as set out by the, then, Shadow Advisory Board.

To assist in our understanding we have been provided with a large amount of information about the Scheme, usually with an officer's commentary, including:

- Annual Report and Accounts
- Guide to the Local Government Pension Scheme
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Reports from the Fund Actuary

Reference to specific training is made below.

Relationship with Pension Fund Committee

At each meeting, the Board have been advised of the agendas of, and decisions taken by, the Pension Fund Committee at its recent meetings. Our views have, in turn, been reported to the Committee. The Board has also been explicitly invited to attend the Committee meetings and the training sessions held prior to each meeting.

Both the Board and the Committee have emphasised the importance of maintaining good relationships between the two bodies. The Chairs of the Committee and the Board have met and our Chair has been invited to speak at the Committee.

A recurring theme throughout the year has been legal advice that members of the Board are not entitled to remain at the Committee's meetings when exempt papers are discussed even though Board members are expected to abide by the Council's Code of Conduct. A compromise was eventually reached whereby Board members could see all exempt papers other than those involving personal information of officers.

Annual Report and Financial Statements

At various of our meetings we have been invited to consider the Annual Report and Financial Statements for the last two years together with their various attachments and the reports of the Auditor. The areas in which we expressed particular interest have been:

- Actuarial assumptions
- Employer contributions
- The prospect of the funding deficit being recovered in 20 years
- The performance of the Fund and the way it is discussed in reports to facilitate the scrutiny process

We have received reports and presentations from the Actuary at each of our meetings in 2016.

Investment and Management Expenses

We reviewed in detail the management expenses of the Fund and requested benchmarking details.

Benchmarking and key performance indicators

We have shown particular interest in benchmarking and key performance indicators.

At our meeting on 2 November 2015 we reviewed the self-assessment key performance indicators provided on a pro-forma for the LGPS Scheme Advisory Board.

Traditionally, reliable benchmarking and comparison information covering all administering authorities has not been available. However, recent Government requirements in the context of the pooling arrangements have necessitated the provision of relatively consistent information from all administering authorities and Harrow's results were considered by us on 28 June 2016.

Environmental, Social and Governance Issues

The Board supports the Committee's stance in expecting fund managers to adopt appropriate codes of practice and that they be required to provide an explanation when they do not.

Training

In accordance with the requirements mentioned above, on 27 August 2015 the Fund's investment Adviser Aon Hewitt provided an intensive all-day training programme covering the following:

- Governance and Key Legislation
- Actuarial and Funding Matters
- Investment

All members of the Board were able to attend.

Conclusion

The regulations governing Pension Boards were contained in the 2015 Regulations (SI2015/57)

The main provisions are:

“(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it -

(a) to secure compliance with -

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme.

Essentially the role of the Pension Board is one of Scrutiny and our role is wholly advisory.

The first year has been one of training, understanding the role and scrutinising the arrangements for the actuarial valuation and areas of key interest such as management fees etc.

The Board looks forward to consolidating their performance in the second year and becoming an effective body for scrutiny.

REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: Review of Terms of Reference

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Terms of Reference

Section 1 - Summary

Summary

The Board are asked to consider whether they wish to ask the Council to consider amendments to their terms of reference (draft attached as an appendix).

Recommendation

The Board is recommended to agree what changes to their terms of reference they wish to recommend to Council.

Section 2 – Report

1. At the first meeting of the Board on 25 June 2015 members were advised of the Terms of Reference agreed by the Council and to recommend any amendments they may wish to make. A copy of the Terms is attached as an appendix.
2. The Board were further advised that any changes requested would be reported to the Council for consideration.
3. The Board noted the report and commented as follows:
 - a typo on page 12 was required to replace ‘or’ with ‘for’;
 - an amendment could be made to read that the Board shall meet at least twice a year;
 - it was important for continuity to be an important factor in the membership of the Board. The Board’s operation was a new concept and if there was a new membership after a couple of years this could reduce the knowledge and experience built up. This was an issue that the Chair and Treasury and Pension Fund Manager would consider in due course.
4. The only other matter raised by the Board which could result in a change to the Terms of Reference is the issue of payment to the Council officer who is a member of the Board and the level of payments to non-Council members.
5. The Board is asked to consider exactly what changes to the Council’s constitution they would like to recommend to Council..

Financial Implications

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

Risk Management Implications

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

Equalities implications

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

Council Priorities

9. The performance of the Pension Fund has a direct impact on the financial health of the Pension Fund which directly affects the level of employer

contribution which then, in turn, affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert ✓ Director of Finance

Date: 20 October 2016

Name: Caroline Eccles ✓ on behalf of the
Monitoring Officer

Date: 21 October 2016

Ward Councillors notified: Not applicable as the
report is relevant to all
wards.

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 for 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:

<i>Administering Authority</i>	London Borough of Harrow
<i>Board or Pension Board</i>	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
<i>Board Member</i>	A member of the Board including Employer representatives, Scheme Member representatives and an independent member
<i>Code of Practice</i>	The Pensions Regulator’s [draft] Code of Practice no 14 entitled “ <i>Governance and administration of public service pension schemes.</i> ”
<i>Conflicts of Interest</i>	As defined in the Public Service Pensions Act 2013
<i>Conflicts of Interest Policy</i>	The policy on conflicts of interest as adopted by the Board
<i>Employer Representative</i>	A person appointed to the Board for the purpose of representing employers for the Scheme
<i>Fund</i>	The London Borough of Harrow Pension Fund within the Scheme administered and maintained by the Scheme Employer
<i>Independent Member</i>	A Member of the Board who is neither an Employer Representative nor a Member Representative
<i>Knowledge and Understanding and Training Policy</i>	The training policy as adopted by the Board
<i>LGPS</i>	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.

<i>Member Representative</i>	A person appointed to the Board for the purpose of representing members of the Scheme
<i>Scheme</i>	The Local Government Pension Scheme as defined under LGPS.
<i>Scheme Manager</i>	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: 2 November 2016

Subject: **Information Report** – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Section 1 – Summary

This report advises the Board of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into effect on 1 November 2016.

FOR INFORMATION

Section 2 – Report

1. At their meeting on 28 June 2016 the Board were advised of a consultation document received from DCLG entitled “Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.” Comments had been invited by 19 February 2016.
2. The consultation document discussed many important issues in connection with the future management of the Local Government Pension Scheme including:
 - Deregulation of investment decisions
 - Investment Strategy Statement to replace Statement of Investment Principles
 - Non-financial factors – inappropriate use of investment policies
 - Investment – appropriate use of certain investments
 - Secretary of State’s powers of intervention
3. However, the consultation process was limited to eight questions to which answers were requested divided into two proposals as follows:

Proposal 1: Adopting a local approach to investment

Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities’ investments are made prudently and having taken advice?

Are there any specific issues that should be reinstated? Please explain why.

Is six months the appropriate period for the transitional arrangements to remain in place?

Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

Proposal 2: Introducing a safeguard – Secretary of State power of intervention

Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

4. DCLG have now finalised the Regulations which show only one change from the draft namely that the date of their coming into force has been changed to 1 November 2016 with the date by which the new investment strategy statements have to be published set at 1 April 2017.

5. A summary of the Regulations, based on that provided by DCLG in the consultation document is as follows:

(1) Citation, commencement and extent

This details the citation and scope of the regulations, and gives the date at which they will come into force.

(2) Interpretation

These provisions define terms used in the regulations with reference to legislation, and cite the legislation that gives administering authorities the powers that may be impacted by the regulations.

(3) Investment

This regulation defines what is considered an investment for the purposes of the regulations. This definition includes futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

(4) Management of a pension fund

This regulation lists the monies that an administering authority must credit to its pension fund, including employer and employee contributions, interest, and investment capital and income. It also sets out the administering authority's responsibility to pay benefits entitled to members, and states that, except where prohibited by other regulations, costs of administering the fund can be paid by the fund.

(5) Restriction on power to borrow

This regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

(6) Separate bank account

The regulation states that an administering authority must deposit all pension fund monies in a separate account, and lists those institutions that can act as a deposit taker. It also states that the deposit taker cannot use pension fund account to set-off any other account held by the administering authority or a connected party.

(7) Investment strategy statement

This regulation places an obligation on the administering authority to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement should demonstrate that investments will be suitably diversified, and it should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

In many respects, the investment strategy statement replaces the list of restrictions given in Schedule 1 of the 2009 Regulations and enables the criteria to be determined at local level. Schedule 1 of the 2009 Regulations will remain in force until such time that the new investment strategy statements have to be published.

Provision is made for authorities to publish their policy on the extent to which environmental, social and corporate governance factors are taken into account in the selection, retention and realisation of investments.

(8) Directions by the Secretary of State

This provision grants the Secretary of State the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to have regard to regulation and guidance. He can also initiate inquiries to determine if an intervention is warranted, and must consult with the authority concerned. Once it is determined that an intervention is needed, the Secretary of State can intervene by directing the authority undertake a broad range of actions to remedy the situation.

(9) Investment managers

This regulation details how an administering authority must appoint external investment managers.

(10) Investments under section 11(1) of the Trustee Investments Act 1961

This regulation allows administering authorities to invest in Treasury-approved collective investment schemes.

(11) Consequential amendments

This regulation lists the prior regulations that are amended as a result of the regulations

(12) Revocations and transitional provisions

The provision lists the regulations that are revoked by the regulations. Transitional arrangements are put in place to ensure that the existing regulations governing the investment strategy remain in place until a new investment strategy statement is published by an authority under regulation seven. These transitional arrangements apply for up to six months after the regulations came into effect.

6. With the revocation of the 2009 Regulations a comparison of the two sets is largely of academic interest. The main changes are those discussed under clauses 7, 8 and 10 above.

Financial Implications

7. Whilst significant changes in the Regulations can have a significant impact on the performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

8. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name Dawn Calvert Director of Finance

Date: 20 October 2016

Ward Councillors notified:

Not applicable as the report is relevant to all wards.

Section 4 - Contact Details

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

Background Papers - None

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2016 No. 946

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

**The Local Government Pension Scheme (Management and
Investment of Funds) Regulations 2016**

<i>Made</i> - - - -	<i>21st September 2016</i>
<i>Laid before Parliament</i>	<i>23rd September 2016</i>
<i>Coming into force</i> - -	<i>1st November 2016</i>

The Secretary of State makes these Regulations in exercise of the powers conferred by sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013(a).

In accordance with section 21(1) of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st November 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

“the 2000 Act” means the Financial Services and Markets Act 2000(b);

“the 2013 Regulations” means the Local Government Pension Scheme Regulations 2013(c);

“the Transitional Regulations” means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(d);

“authority” means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

“fund money” means money that is or should be in a pension fund maintained by an authority;

(a) 2013 c. 25; see section 2 of and Schedule 2 to that Act as to how the power is exercisable by the Secretary of State.

(b) 2000 c. 8.

(c) S.I. 2013/2356.

(d) S.I. 2014/525.

“proper advice” means the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters;

“the Scheme” means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(a) (local authority’s general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(b) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations “investment” includes—

- (a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;
- (b) a contribution to a limited partnership in an unquoted securities investment;
- (c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(c).

(2) The persons within this paragraph are—

- (a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities)(d) to effect or carry out contracts of insurance of a relevant class;
- (b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(e) to effect or carry out contracts of insurance of a relevant class; and
- (c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(3) A contract of insurance is of a relevant class for the purposes of paragraphs (1)(c) and (2) if it is—

- (a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or
- (b) a contract to manage the investments of pension funds, whether or not combined with a contract of insurance covering either conservation of capital or payment of minimum interest.

(4) For the purposes of this regulation—

“limited partnership” has the meaning given in the Limited Partnerships Act 1907(f);

“recognised stock exchange” has the same meaning as in section 1005 of the Income Tax Act 2007(g);

“traded option” means an option quoted on a recognised stock exchange; and

(a) 2011 c. 20.

(b) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.

(c) Section 22 was amended by section 7(1) of the Financial Services Act 2012 (c. 21).

(d) Part 4A of the 2000 Act was inserted by section 11(2) of the Financial Services Act 2012.

(e) Paragraph 15 was amended by S.I. 2003/2066, 2007/3253, 2012/1906, 2013/1881 and 2015/575.

(f) 1907 c. 24.

(g) 2007 c. 3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c. 8).

“unquoted securities investment partnership” means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(a), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

- (a) the amounts payable by it or payable to it under regulations 15(3)(b), 67 and 68 of the 2013 Regulations (employer’s contributions and further payments);
- (b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);
- (c) all income arising from investment of the fund; and
- (d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the references in this regulation to the authority’s pension fund is to the fund which is the appropriate fund(b) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(c) (charges in relation to pension sharing costs).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

- (a) paying benefits due under the Scheme; or
- (b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) “Deposit-taker” for the purposes of paragraph (1) means—

- (a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial

(a) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(b) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the “appropriate administering authority” in relation to a person.

(c) 1999 c. 30; see S.I. 2000/1047 and S.I. 2000/1049.

- Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(a);
- (b) an EEA firm of the kind mentioned in paragraph 5(b)(b) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(c) to accept deposits;
- (c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or
- (d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include—

- (a) a requirement to invest fund money in a wide variety of investments;
- (b) the authority's assessment of the suitability of particular investments and types of investments;
- (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d).

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

(a) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
 (b) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
 (c) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906, 2013/1881 and 2015/575.
 (d) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).

(2) Where this regulation applies in relation to an authority the Secretary of State may make a direction requiring all or any of the following—

- (a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within such period of time as is specified in the direction;
- (b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;
- (c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;
- (d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

- (a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under regulation 62 of the 2013 Regulations (actuarial valuations of pension funds);
- (b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board(a);
- (c) any representations made by the authority in response to the consultation under paragraph (3);
- (d) any other evidence that the Secretary of State regards as relevant to whether the authority has been complying with these Regulations or acting in accordance with guidance issued under regulation 7(1).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must comply with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(a) The Local Government Pension Scheme Advisory Board is established by regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) and (4).

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(4) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(a) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(i) (pension fund annual report) substitute—

“(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;”.

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

“(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

“(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

Revocations and transitional provision

12.—(1) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(b) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(c) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority first publishes its investment strategy statement under regulation 7.

(3) For the period starting on 1st November 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7, or 31st March 2017, regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

(a) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).

(b) S.I. 2009/3093.

(c) S.I. 2013/410.

We consent to the making of these Regulations

David Evennett

Guto Bebb

Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Marcus Jones

Parliamentary Under Secretary of State

21st September 2016

Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013.

Regulations 2 and 3 respectively contain definitions and make provision that the restrictions imposed by the regulations bind authorities which have the “power of general competence” in the exercise of that power.

Regulations 4, 5 and 6 respectively set out which payments must be made into and out of the pension fund, restrict powers of borrowing and require fund money to be in a separate account.

Regulations 7 and 8 respectively require authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and enable the Secretary of State to issue a direction to any authority which fails to comply with its statutory obligations as regards its pension fund or which fails to act in accordance with the guidance.

Regulations 9 and 10 respectively allow for the appointment of investment managers and investment in Treasury approved schemes.

Regulations 11 and 12 respectively make consequential amendments relating to the investment strategy published under regulation 7 and transitional provisions.

No impact assessment has been produced because it has no impact on business, charities or voluntary bodies and minimal impact on the public sector.

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REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: **Information Report** – Statement of Investment Principles / Investment Strategy Statement

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: DCLG: Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement

Section 1 – Summary

Summary

This report advises the Board of the Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement

FOR INFORMATION

Section 2 – Report

1. Prior to 1 November 2016, in accordance with the requirements of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009*, the Pension Fund Committee was required to agree a Statement of Investment Principles. Its purpose was to outline the principles and policies followed by the Committee in the management of the Fund's investments.
2. It was a requirement that the Statement be reviewed periodically and certainly when strategic changes had been made to investment policies. The Committee last reviewed the Statement at its meeting on 25 November 2015. This is the Statement under which the Fund investments have been managed for the last year and is included in the Annual Report and Financial Statements for 2015-16.
3. Elsewhere on the agenda the Board have considered a report entitled "The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016."
4. That report advises the Board of the revocation of *The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009* and their replacement by *The Local Government Pension Scheme (Management of Funds) Regulations 2016*.
5. The "2016" Regulations replace the requirement for a Statement of Investment Principles by one for an Investment Strategy Statement. Since the "2009" Regulations have been revoked there is little to be gained from comparing the two since the Fund must comply with the new Regulations as follows:

Investment strategy statement

7.—(1) *An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.*

(2) *The authority's investment strategy must include—*

- (a) a requirement to invest fund money in a wide variety of investments;*
- (b) the authority's assessment of the suitability of particular investments and types of investments;*
- (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;*
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;*
- (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*
- (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.*

- (3) *The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.*
 - (4) *The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.*
 - (5) *The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.*
 - (6) *The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.*
 - (7) *The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.*
 - (8) *The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.*
6. Alongside the Regulations DCLG have issued the attached document entitled "Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement."
 7. The Guidance highlights the Regulations detailing the matters to be included in the Investment Strategy Statement (Regulation 7 as copied above) and the sanctions available to the Secretary of State (Regulation 8). It goes into further detail in respect of what is required under Regulation 7(2)(a) to 7(2)(f).
 8. Whilst many of these requirements are covered in the Fund's current Statement of Investment Principles a number are not. The Committee, the Board, other employers and the Committee's advisers will be consulted over the next few months in order that the Committee can agree the Investment Strategy Statement at their meeting of 7 March 2017. Comments are invited members of the Board either at the meeting or subsequently.

Financial Implications

9. Whilst the implementation of the Statement of Investment Principles and Investment Strategy Statement has major financial implications for the Pension Fund there are none arising from this report.

Risk Management Implications

10. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

11. Whilst the Fund's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments can have major equalities implications there are no direct equalities implications arising from this report.

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date:	20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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Section 4 - Contact Details

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

Background Papers – None



Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment
Strategy Statement



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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: **Information Report - Pension Fund Committee Meetings** 21 June 2016 and 6 September 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Minutes of Pension Fund Committee 21 June 2016
Minutes of Pension Fund Committee 6 September 2016

Section 1 – Summary

Summary

The report sets out the matters considered by the Pension Fund Committee at its meetings on 21 June 2016 and 6 September 2016, attaches the minutes of the meetings and invites the Board to agree any comments it might wish to make to the Committee.

Section 2 – Report

1. Matters considered by the Pension Fund Committee at its meeting on 21 June 2016

- Local Government Pension Scheme Pooling Arrangements Update
- London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the Year Ended 31 March 2016
- London Borough of Harrow Pension Fund Annual Performance Review
- Quarterly Trigger Monitoring Q1 2016
- Investment Strategy
- Update on Regular Items:
 - Draft work programme
 - Performance of fund managers
 - Issues raised by Pension Board
- Pension Fund Risk Register
- Annual Review of Internal Controls at Longview Partners
- Actuarial Valuation 2016
- Investment Manager Monitoring

A copy of the minutes of the meeting is attached

2. Matters considered by the Pension Fund Committee at its meeting on 6 September 2016

- Actuarial Valuation 2016
- Performance Measurement Services
- London Borough of Harrow Pension Fund: Management Expenses 2015/16
- Local Government Pension Scheme Pooling Arrangements Update
- Currency Hedging
- Quarterly Trigger Monitoring Q2 2016
- Update on Regular Items:
 - Draft work programme
 - Performance of fund managers
 - Issues raised by Pension Board
- Annual Review of Internal Controls at Insight Investment
- Property Opportunities
- Investment Manager Monitoring

A copy of the minutes of the meeting is attached

Financial Implications

3. Whilst this report discusses numerous matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

Risk Management Implications

4. Relevant risks are included in the Pension Fund Risk Register.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date:	20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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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

MINUTES

21 JUNE 2016

Chair:	* Councillor Nitin Parekh	
Councillors:	* Jo Dooley	* Bharat Thakker
	* Norman Stevenson	
Co-optee (Non-voting):	* Howard Bluston	* John Royle Pamela Belgrave

[Note: Other Attendance: (1) John Royle attended in an observer role, as the representative of Harrow UNISON;

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

(3) Colin Cartwright of Aon Hewitt attended in an advisory role, as the Council's Investment Adviser.

(4) Richard Harbord, Chair of the Pension Board, and Gerald Balabanoff, Vice-Chair of the Pension Board, attended the meeting as observers. They left the room prior to the consideration of confidential items 18 and 19 on the agenda.

(5) Gemma Sefton, Hymans Robertson, attended the meeting as Council's Actuary.]

* Denotes Member present

130. Attendance by Reserve Members

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

131. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson, a Member on the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that his wife was a member of Harrow Council's Local Government Pension Scheme. He added that some of his clients were also members of Pension Schemes. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He added that he had regular dealings with Aon Hewitt, the Council's Investment Adviser, and that he had represented the Committee at the Local Authority Pension Fund Forum. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

Gerald Balabanoff, Vice-Chair of the Pension Board and Scheme Members' Representative on the Board, declared that he was present as an observer. He would remain in the room to listen to the discussion except for Part II items on the agenda.

132. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chair of the Committee for the 2016/2017 Municipal Year.

133. Minutes

RESOLVED: That the minutes of the meeting held on 9 March 2016, be taken as read and signed as a correct record, subject to the following amendments:

- (1) Howard Bluston (Non-Voting Co-optee) and John Royle (Harrow UNISON) being marked as 'present' at the meeting;
- (2) Minute 121: 1st Paragraph, Colin Robertson's name being replaced with that of Colin Cartwright and Councillor Bharat Thakker being included as part of the small group.

134. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

135. Information Report - Local Government Pension Scheme Pooling Arrangements Update

The Committee received a report of the Director of Finance, which provided an update on the development of the pooling arrangements and the London CIV (Collective Investment Vehicle), and invited comments on the Fund's draft submission to the CIV as part of its submission to DCLG (Department of Communities and Local Government) by 15 July 2016.

An officer highlighted:

- the main conclusions arising from the Harrow Review, as set out in paragraph 8 of the report, which included the returns and associated costs;
- that the DCLG tended to communicate with embryonic pools rather than individual administering authorities.

The officer circulated two pages titled 'London CIV – Individual Borough Response' setting out an updated version of the London Borough of Harrow response. The officer referred to the circulated pages and sought comments on the summaries. He added that he had liaised with Colin Cartwright (Aon Hewitt) and Colin Robertson (Independent Adviser) in this regard and reported as follows:

- the assets on page 1 as at 31 March 2015 showed an amount of Liquid Assets of £653.383m and Illiquid Assets of £21.462m, comprising those assets which ought to remain outside the CIV. In terms of the transition timeline for individual funds, 44% of the Harrow Fund would be invested in the CIV by the end of 2016 and 58% by the end of 2018. The officer explained that this was an aspiration but there was a need to be satisfied with the opportunities available;
- page 2 of the circulation showing 'Indicative Sub-Funds Available on CIV' had been produced by the CIV and there was concern as to whether sufficient opportunities would be available for all Funds. In 2016, officers were led to believe that the CIV would let the contract to Longview;
- if Longview sub-fund was set up in 2016, the transition would be straightforward. Transition costs would be low during the first year. An opportunity for transition from Oldfields could arise in 2018;
- a satisfactory emerging markets fund needed to be available before any transition from GMO could be considered;
- if funds became available in 2016, it would be possible to carry out the transition from State Street Global Services. Colin Cartwright (Aon Hewitt) reported that various Funds were being negotiated.

Colin Robertson (Independent Adviser) reported that the issues were wide and that only three funds were available currently. It was not possible to progress as Fund Managers were unknown.

Members noted that there were no alternatives except for a full or 90% of transition of asset management to the CIV by 2020. Significant transition was expected by 2018 or, possibly, earlier by 2017 but it was a moving feast. The Secretary of State could intervene if the government was not satisfied with the Council's performance. There would not be any constraints on the management of the Strategy but constraints would exist on the Manage Strategy. The Asset Class Strategy was the more important of all the strategies. Any influence on the CIV would be through the Joint Committee which currently consisted of 32 Member authorities but might increase to 33. A view was that the CIV ought to offer Funds that were acceptable to Harrow.

Richard Romain (Independent Adviser) asked if the investment structure would need to change and enquired about the soft/hard close methodology. He commented that the Pension Fund Strategy was risk averse and his message to Members of the Committee was that they needed to choose a strategy which fitted in with its complementarity.

Colin Cartwright (Aon Hewitt) advised that changes in Fund Managers could be made at any time and that such changes would incur transition costs but that it ought to be a judgement call. The majority of the assets for the next few years fitted in with complementarity set. It was intended that the Investment Strategy would be retained and that it would be for the CIV to ensure that Harrow's Fund was not being constrained. In relation to exercising a choice for a Global Equity Manager, it was expected that the CIV would identify the best managers and present them per se having carried out various checks, such as monitoring and negotiations on bulk buying. Members expressed concern about the CIV's direction of travel and expressed uncertainty.

Members returned to the papers circulated at the meeting and were generally satisfied with the draft response and

RESOLVED: That the report be noted, including the comments set out in the additional pages circulated at the meeting except that page 1 of the papers circulated be amended to read:

"Subject to suitable investment products being available the timeline we envisage is, by the end of 2016, 44% of our Fund being invested in the CIV, by the end of 2018, 58% and by the end of 2020, 96%. Subject to meeting our strategic objectives, we may/should consider putting up to 10% of our Fund in infrastructure investments, including local developments, but we are likely to prefer long term debt infrastructure rather than start up equity".

136. London Borough of Harrow Pension Fund: Draft Annual Report and Financial Statements for the year ended 31 March 2016

Members received a report of the Director of Finance setting out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

An officer outlined the following key points:

- net assets of the Fund had decreased and its performance was low in the local authority annual league table of investment returns. Harrow was ranked 87 out of 90;
- the number of pensioners had increased, including the number of deferred pensioners whilst active members remained stable;
- management fees, including fees charged by investment managers, were £3.5m and a further report would be submitted to the next meeting;
- the major asset classes had performed poorly and the Fund's investments reflected this disappointing performance producing an investment return of -1.9%;
- the number of employer organisations within the Harrow Pension Fund, including the Council, would have a significant influence on the Fund;
- despite a reduction in net assets of fund available to fund benefits at the period end from 2014/15 to 2015/16, this was not considered to be a huge loss and would be an issue for Hymans Robertson LLP (Council's Actuary) to address as part of their valuation exercise.

A Member commented that the deferred membership figures were a worrying trend and asked if this was typical of local authorities. In response, Gemma Sefton (Hymans Robertson LLP) drew attention to the changes in membership and that, over time, active membership had fallen due to redundancies but had now stabilised.

Another Member asked how the increase in cash outflows due to the impact of falling membership, longevity and pension increases would be factored into the Investment Strategy. Colin Cartwright (Aon Hewitt) explained that the CIV would explore alternatives and possibly move to income generating investments. The intention was to achieve long term growth and, over time, the Investment Strategy may need adjusting and consideration would be given as part of the valuation exercise.

Richard Romain (Independent Adviser) queried the Committee's Terms of Reference set out on page 105 of the report and an officer undertook to check these. He also referred to the section on Risk Management on page 110 of the report and suggested a statement on risk, particularly decision-making risk and reference to meetings being open to members of the public. John Royle

(Unison) asked about the number of officers who received severance packages of £100k. Colin Robertson (Independent Adviser) referred to asset risk and its importance to liabilities. He suggested that performance over a period of 3/5 years be included under Risk Management and that the distributions from Pantheon be reviewed.

RESOLVED: That the report and the comments be noted.

137. Information Report - London Borough of Harrow Pension Fund Annual Performance Review

The Committee received a report of the Director of Finance including a report from the Fund's Performance Measurement Adviser, State Street Global Services (WM Performance Services), on the performance of the Fund for period ending 31 March 2016.

An officer referred to the disappointing performance of the Fund, including its position on the league table discussed at Minute 136 above. He drew particular attention to paragraph 4 of the report about the cessation of performance measurement services previously provided by State Street Global Services and that there was a possibility that another organisation would take over the service. Members noted that the Director of Finance had requested the data going back to 1974 from State Street Global Services so that it could be released to another organisation. The data would only relate to performance.

RESOLVED: That the report be noted.

138. Quarterly Trigger Monitoring Q1 2016

The Committee received a report from the Fund's investment adviser, Aon Hewitt, on Quarterly Trigger Monitoring seeking agreement to no de-risking actions at this stage.

Colin Cartwright (Aon Hewitt) informed Members that following their request for quarterly reports on the consideration of an LDI (Liability Driven Investment which was designed to manage liabilities in line with inflation) Strategy, the report before them provided an update on the status of three de-risking triggers which were being monitored: the Fund's funding level; yield triggers based on the 20 year spot yield and view of bond yields.

He added that having put these triggers in place, including a fourth trigger which was not market related, his considered opinion was that there was no need to proceed with an LDI mandate at present. Additionally, the price of Bonds was fair and LDI's would be expensive. However, this matter ought to remain on the agenda for future consideration.

In response to questions, Colin Cartwright replied as follows:

- at present, the London CIV (Collective Investment Vehicle) did not have an LDI Mandate that would be suitable;

- an LDI Mandate would be difficult to implement in short time and it was dependant on the financial markets;
- overall, the Harrow Fund had not performed badly in comparison with other authorities over the last 3/5 years but that 2015/16 was a poor year;
- a greater appetite of risk may lead to increased returns but there were alternative ways of creating yield and these were being examined, including mitigation and volatility.

Members noted that a move towards an LDI Mandate would be a major decision for the Committee to take over time and that they ought to be familiar with its functions and workings. John Royle (Unison) asked why the Pension Fund was not used to build houses. It was noted that such action would entail a strategic decision. Richard Romain (Independent Member) added that the risks involved would be high.

An officer reported that he would capture the discussion relating to 'local investment and housing' as part of the training session on 'Infrastructure' prior to the next meeting of the Committee.

RESOLVED: That no de-risking actions be taken at this stage.

139. Information Report - Investment Strategy

The Committee received a report of the Director of Finance setting out the report from the Fund's investment adviser, Aon Hewitt, on the Fund's current investment strategy including expected return and risk.

The Committee noted that the portfolio had been modelled over a 10-year period in order to provide a headline assessment of the expected return and volatility for each strategy. The report had been provided to Hymans Robertson LLP, Council's Actuary.

RESOLVED: That the report be noted.

140. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance updating Members on the draft Work Programme, performance of fund managers for the previous quarter and issues raised by the Pension Board. The report invited comments and agreement of the draft Work programme and highlighted any significant issues raised by the Pension Board.

It was noted that the issues raised by the Pension Board had been highlighted with Hymans Robertson LLP (Council's Actuary) and that these matters - methodology and level of contribution – would be addressed by their representative, Gemma Sefton, as part of her presentation on a later item.

A typographical amendment was made to paragraph 8 of the report. A Member agreed that 13 October 2016, as proposed, was a good date to 'Meet the Managers' but that it ought to be held during the afternoon between 2.00 pm - 7.00 pm. In response to a question, an officer outlined the role of the Pension Board which was to provide an oversight and act as a critical friend to the Committee.

RESOLVED: That the Work Programme for the period up to March 2017 be agreed, subject to the comments above.

141. Information Report - Pension Fund Risk Register

The Committee received a report of the Director of Finance setting out the revised Risk Register for the Pension Fund. An officer reported that whilst the revised Risk Register was of a similar nature to the versions considered in March and July 2015 and stressed that none of the risks were in the 'red' zone. Risk Numbers 8, 9 and 16, details of which were set out below, were listed as 'critical', which meant that the situation would be critical if the risk were to occur but that the chances of such risks happening were low:

Risk 8: The Fund's assets were not sufficient to meet its long term liabilities. Fall in returns on government bonds leading to rise in value placed on liabilities and an increase in deficit.

Risk 9: The relative movement in the value of the Fund's assets did not match the relative movement in the Fund's liabilities.

Risk 16: Long term investment strategy in relation to fund liabilities was inappropriate.

RESOLVED: That the report be noted.

142. Information Report - Annual Review of Internal Controls at Longview Partners

The Committee received a report of the Director of Finance summarising the contents of the latest internal controls report from Longview Partners LLP.

RESOLVED: That the report be noted.

143. Exclusion of the Press and Public

RESOLVED: That the press and public be excluded from the meeting for the following items of business, on the grounds that they involve 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:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
18.	Information Report – Actuarial Valuation	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).
19.	Information Report – Investment Manager Monitoring	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended), relating to the financial or business affairs of any particular person (including the authority holding that information).

144. Information Report - Actuarial Valuation 2016

The Committee received a confidential report of the Director of Finance and a presentation from Gemma Sefton, Hyman Robertson LLP, on progress on the triennial valuation to date and, in particular, on the consideration of the valuation assumptions.

Gemma Sefton circulated a presentation and undertook to explain the rationale behind other matters raised during the meeting. Her presentation included an overview of the 2016 Valuation and covered the Funding Strategy and financial, demographic and pre-retirement assumptions. During her presentation on the 'Discount Rate: Modelling of different combinations', Richard Romain (Independent Adviser) sought assurances that the figures had not been overtly influenced. The Director of Finance stated that the Council worked closely with Hymans Robertson LLP (Council's Actuary) which had taken a prudent approach and due diligence had been applied in this regard and one which she supported.

Gemma Sefton referred to the Investment and Funding Strategies and how assumptions had been arrived at and on the basis of all available information. She added that long term targets were key and whilst contribution rates could be smoothed, she had not experienced such pressures and, over time, the justification for rates would need to be evidenced. She added that her role was to comment on the asset allocation and she understood that the asset strategy retained flexibility.

Gemma Sefton responded to additional questions on stewardship, 100% funding, deficits, inflation assumptions, including whether these were forward looking or based on historical information, and suitability of investments. She referred to the contribution holiday offered some time in the past and which had been taken up by Harrow, the responsibility to future generations of taxpayers, and sustainability and deliverability of the Fund which remained the remit of the Director of Finance. She also explained why and how the RPI

(Retail Price Index)/CPI (Consumer Price Index) were used in relation to inflation assumptions and the conservative approach taken.

The Committee noted that future reports to the Committee would address inflation assumptions but that relevant information would be circulated shortly.

The Chair thanked Gemma Sefton for her presentation.

RESOLVED: That the presentation be received and noted.

145. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance setting out Aon Hewitt's quarterly report on Harrow's investment managers. All managers were rated either "Buy" or "Qualified" although the ratings of one of the managers were being assessed as part of the annual research process. Colin Cartwright of Aon Hewitt drew Members' attention to a 'Flash Report' circulated previously and how his investment team had arrived at the revised grading due to the investment processes and risk controls, including the style of management.

Members discussed their options, including Value Managers and whether the CIV (Collective Investment Vehicle) might be of any assistance. The complementarity approach was referred to again and any losses involved, including fees. Members discussed their options and

RESOLVED: That

- (1) a further report be submitted to the September 2016 meeting of the Committee and it be noted that Members would be meeting several of the Fund Managers subsequent to the meeting;
- (2) in the interim, Members be briefed if the position deteriorated.

(Note: The meeting, having commenced at 6.31 pm, closed at 9.40 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

PENSION FUND COMMITTEE

MINUTES

6 SEPTEMBER 2016

Chair:	* Councillor Nitin Parekh		
Councillors:	* Jo Dooley	* Bharat Thakker	
	* Norman Stevenson		
Co-optee (Non-voting):	* Howard Bluston		
Trade Union Observers:	* John Royle	† Pamela Belgrave	
Independent Advisers:	* Mr C Robertson	Independent Adviser	
	* Honorary Alderman R Romain	Independent Adviser	
Others:	* Mr C Cartwright	Council's Investment Adviser	Aon Hewitt
	* Ms G Sefton	Council's Actuary	Hymans Robertson

* Denotes Member present

† Denotes apologies received

146. Attendance by Reserve Members

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

147. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson, a Member on the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that his wife was a member of Harrow Council's Local Government Pension Scheme. He added that some of his clients were also members of Pension Schemes. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, a non-voting co-optee, declared a non-pecuniary interest in that he was Chair of Edward Harvist Charity, which was managed by BlackRock Investment Management. He also attended the PLSA North London Branch meetings. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

148. Minutes

RESOLVED: That the minutes of the meeting held on 21 June 2016 be taken as read and signed as a correct record, subject to the following amendments:

Minute 135

Page 7 of the agenda – fourth bullet point, should end 'Longview be included';

Page 8 of the agenda – second paragraph starting "Members noted" in same section should have "Asset Class" added to read "There would not be any constraints on the management of the Asset Class Strategy...." and in the same sentence it should say "Manager" rather than 'Manage';

Minute 136

Page 9 of the agenda – fourth paragraph, should read "falling active membership". The last paragraph in the same section, should be "referred to asset risk and the importance of assessing it relative to the liabilities".

Minute 138

Page 10 of the agenda – second paragraph, should read "which was designed to manage assets in line with the liabilities, in particular with regard to inflation and interest rates".

149. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

150. Information Report - Actuarial Valuation 2016

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, in relation to the progress on the triennial valuation to date and, in particular, on the initial results and the next steps.

Gemma Sefton referred to her presentation slides on 'The London Borough of Harrow Pension Fund - 2016 Valuation - Initial Whole Fund Results' and provided a 2016 Progress Report by recapping on the steps taken to date, valuation results and the next steps. She made the following key points:

- the Fund had taken more time to review due to various changes but nevertheless was ahead of most of Hyman's other LGPS clients;
- there had been an upturn in the job market which had helped the funding level through the split of active/deferred/pensioner members
- the funding level had risen and the deficit had fallen in cash terms. The deficit at the last valuation was £234m compared to £228m at the current valuation;
- risk factors needed to be appreciated and she drew attention to the presentation slide on page 9 'Why has the funding position changed?'.
• the 'Membership Experience', presentation slide at page 10, showed that pay growth and pension increased over the last three years were lower than had been assumed in 2013 with the key driver being lower than expected inflation. The number of ill-health retirements were fewer than expected, 31 instead of 95;
- the changes in mortality rates assumed had previously been discussed and covering the mortality assumption in a training session was recommended;
- the 'Experience since 2013' presentation slides showed that falling yields in government bonds had increased liabilities but that asset growth had been stronger than expected;
- the 'Outlook for Financial Markets' showed a heightened uncertainty and increased sterling volatility but many of such concerns pre-dated Brexit;
- further work on the employers' contribution rates was underway and would be presented at the next meeting of the Committee with suggested changes to the existing strategy and contributions;
- there were lower expectations for growth and the uncertain outlook was not only due to the prospective Brexit negotiations and any further changes to the Bank of England's policy. The forecast was that investors would need to take more risks to generate the same returns. In response to a suggestion that the assumptions might not be sufficiently conservative, Colin Robertson, Independent Adviser, was of the view that the assumptions being made could be considered too prudent and that higher returning asset classes would contribute to the Fund return and he presented a more positive outlook. A Member was of the view that funding, liability and making necessary adjustments

would be key to a positive outlook. Gemma Sefton stated that the key was to understand the funding including its drivers;

- a full asset liability test needed to be carried out for employers and whether full funding was achievable by a range of contribution rates needed to be assessed. Potential contribution strategies would be set out, including long term funding objectives. All Councils would want to make stable contributions over a period of years to allow them to budget for future years. Contributions were not considered to be the only lever, the movement in assets and liabilities would also have an impact on the Fund. Gemma Sefton added that she would forward a range of possible outcomes to allow the Committee to make a judgement on the contributions. The paper from HM Treasury circulated to Members previously provided some background;
- there was a discussion of discount rates used for determining contributions vis a vis the discount used in the valuation. Colin Robertson stressed the importance of considering the assets relative to the liabilities. These topics, together with others related to the valuation would be covered in the training session prior to the next Pension Fund Committee meeting.

During her presentation, Gemma Sefton responded to questions. She summarised the remaining presentation slides. The Director of Finance / Section 151 Officer informed Members that the Council contributed £5m a year towards the deficit reduction and any recommendations for additional contributions would require further discussions.

RESOLVED: That the presentation be received and noted.

151. Performance Measurement Services

The Committee received a report of the developments in connection with the provision of performance measurement services for the Fund in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

An officer outlined the core services that would be provided by PIRC (Pension and Investment Consultants Ltd) but pointed out that the service would not include a detailed analysis – the fund specific quarterly service – which the Committee had been used to receiving. Officers were exploring the development of the Council's own fund specific analysis. It was intended to provide sufficient information to PIRC to allow a meaningful report to be submitted to November 2016 Committee meeting.

The Committee welcomed Colin Robertson's offer to advise on the Council's analysis particularly as regards benchmarking.

RESOLVED: That subscription to the performance measurement service be provided by Pension and Investment Consultants Limited at a cost of £3,000 in 2016-17 and £4,500 in subsequent years be agreed.

152. Information Report - London Borough of Harrow Pension Fund: Management Expenses 2015/16

The Committee received a report setting out details of management expenses incurred by the Pension Fund during 2015-16. An officer explained that management expenses had increased mainly due to the replacement of two Fund Managers with more expensive ones.

Richard Romain, Independent Adviser, highlighted the need to monitor the costs associated with the CIV (Collective Investment Vehicle).

RESOLVED: That the report be noted.

153. Information Report - Local Government Pension Scheme Pooling Arrangements Update

The Committee received a report on the development of the pooling arrangements and the London CIV (Collective Investment Vehicle), including the problems which had arisen in connection with the launch of the global equity indexed mandates.

An officer introduced the report and drew attention to the reconsideration of the options around the provision of passive management through the CIV and the need to await further developments in this regard. Additionally, the letter dated 30 August 2016 from the London CIV, including the 'Global Equities Procurement – Investment Strategy Lots' document, would become key should a Fund Manager need to be replaced.

Members noted that the London CIV was continuing to develop and that the Chair attended meetings of the CIV.

RESOLVED: That the report be noted.

154. Currency Hedging

The Committee considered a report from the Fund's Investment Advisers, Aon Hewitt, on currency hedging in line with its function to administer all matters concerning the Council's Pension investments in accordance with the law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, referred to his report which examined the impact of sterling weaknesses on the Fund's equity holdings and whether the current hedging remained appropriate in the current economic environment. He explained that the reasons for the recommendation, details of which were set out in his report. Members also considered a report from Colin Robertson, Independent Adviser, which had come to a similar view to that of Aon Hewitt.

The Committee noted that since the report had been issued by Aon Hewitt, sterling had strengthened against the dollar and the euro.

RESOLVED: That no changes be made to the Fund's current currency hedging arrangements.

155. Quarterly Trigger Monitoring Q2 2016

The Committee considered a report from the Fund's investment advisers, Aon Hewitt, on Quarterly Trigger Monitoring in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, advised that investment risks could be reduced by hedging liabilities. He also advised that de-risking was not considered appropriate at the current time.

RESOLVED: That no de-risking actions be taken at this stage.

156. Pension Fund Committee - Update on Regular Items

The Committee received a report setting out the draft Work Programme, performance of Fund Managers for previous periods, including issues raised by the Pension Board and sought the Committee's agreement to the proposed Work Programme.

At the Committee's request, the officer agreed to arrange an additional training session on 'Valuation' prior to the Committee meeting on 22 November 2016.

An officer referred to the session on 'Meet the Managers' on 13 October 2016 and explained that draft questions would be circulated for further input from the Committee. The officer drew attention to the Fund Valuation and Performance table and explained that, in the temporary absence of more sophisticated data, a simple relationship of the valuations of the various investments compared to the relevant base lines had been used. The increases in the value of the Fund as at June 2016 had been due to the large increases in the values of the equities portfolios but the Fund's currency hedging strategy had mitigated some of the gains and the current estimate was that approximately £9m would need to be paid to the currency hedging manager in tranches of £5m and £4m over the next six months.

The Chair asked about the concerns expressed by the Pension Board over the length of time taken to change Fund Managers. The officer stated that the Board was of the view that the Council was not nimble but that it was important to note that there were costs associated with changing Fund Managers and there were long term arrangements to consider as well. He added that at the 'Meet the Managers' session, members of the Committee would have an opportunity to address performance and fees charged by individual Fund Managers. It was also important to note that the Fund Manager in question had outperformed other Fund Managers during the period March – June 2016.

In relation to the request for a joint meeting by the Chair of the Pension Board, an officer explained that the training session on 22 November 2016 would be used as a vehicle for consideration of the actuarial valuation prior to the scheduled Pension Fund Committee meeting, and that the Board was welcome to attend both.

RESOLVED: That, subject to the above comments, the Work Programme for the period up to March 2017 be agreed.

157. Information Report - Annual Review of Internal Controls at Insight Investment

The Committee received a report on the contents of the latest internal controls report from Insight Investment.

RESOLVED: That the report be noted.

158. Information Report - Property Opportunities

The Committee considered a report from the Fund's investment advisers, Aon Hewitt, on property opportunities in line with its function to administer all matters concerning the Council's Pension investments in accordance with law and Council policy as conferred by Part 3A, Terms of Reference of the Council's Constitution.

Colin Cartwright, Aon Hewitt, reported that following the E U Referendum there had been heightened economic uncertainty and volatility across most asset classes. The purpose of his report was to consider the impact of Brexit on the UK property market and identify the scope for tactical opportunities for the Fund within this asset class.

Richard Romain, Independent Adviser, was of the view that this opportunity should be given due consideration, particularly if the Council was in a position to negotiate a discounted price. However, he was concerned whether the Council's existing decision-making structures allowed for decisions to be made quickly which this matter would require. He was of the view that mechanisms would need to be put in place if the Committee was minded to take opportunities in the property market. A Member also commented on the ability to take decisions at short notice.

Colin Cartwright suggested that a committed Fund Manager would be required to look for opportunities in the property market or it could be done through contacts. Richard Romain advised that the former route was not one he could support but that it would be better to work with established estate agent(s) on a set return and he was recommending a concept policy. This proposal would require the support of the Council's surveyors.

An officer responded to questions as follows:

- that no money had been set aside but that property investment with Aviva was in place;

- that a re-consideration of the Fund’s Investment Strategy would be required but that it was more likely that the Fund would seek value through discounted prices for pooled funds rather than buying discounted buildings;
- in relation to identifying risks, and other matters raised by the Committee, a report would be presented at the November Committee on Investment Principles.

The Committee agreed that Aon Hewitt’s advice was required on how properties could be held by the Fund.

RESOLVED: That the report be noted and a further report be submitted on the holding of properties and whether this opportunity was advisable.

159. 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 for the reason set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
18.	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)).

160. Information Report - Investment Manager Monitoring

The Committee received a confidential report setting out Aon Hewitt’s quarterly report on Harrow’s investment managers. All Fund Managers were rated either “Buy” or “Qualified” with the rating for one of them having been downgraded from “Buy” to “Qualified.”

Colin Cartwright, Aon Hewitt, referred to the reasons why one of the Fund Managers had been downgraded in the last 3 months and referred to the Committee’s discussions at its previous meeting. He added that a ‘deep dive’ was being conducted and the outcome would be communicated to the Committee in due course. It would be for Members to set out their confidence in that Fund Manager.

Colin Cartwright responded to questions on the need to find an alternative Fund Manager in the context of the CIV (Collective Investment Vehicle) and advised that there were other Fund Managers who would deliver better returns over the long term with volatility in the short term. He stressed that a qualified Fund Manager was still a good manager.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.32 pm, closed at 9.01 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

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REPORT FOR: Pension Board

Date of Meeting:	2 November 2016
Subject:	Information Report – Performance Monitoring
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards Affected:	All
Enclosures:	None

Section 1 – Summary

Summary

This report presents the Board with performance monitoring information as currently available and invites it to consider what further information it would wish to receive.

For information

Section 2 – Report

1. At various of their meetings the Board has rightly suggested that it sees part of their role as monitoring the service performance of the Fund. Whilst to date it has received a substantial amount of performance information through the Fund's Annual Report and Accounts, the Scheme Advisory Board's Benchmarking and Key Performance Indicators return and reports on the triennial actuarial valuation it has not received monitoring information specifically designed for its use and in accordance with best practice.

2. This report advises the Board of the information currently published and suggests what further information could be made available.
3. In the Annual Newsletter the following information in respect of pensions administration in 2015-16 was published:

SERVICE	Performance target (%)	Actual (%)
Issue letter notifying of dependant's benefit in 3 days	95	41.67
Provide transfer details to member in 5 days	95	100.00
Calculation and notification of all retirement (including ill-health) benefits estimate in 7 days	95	81.73
Issue letter to new pension provider detailing transfer-out quote in 9 days	97	100.00
Calculation and notification of deferred benefits in 8 days	97	92.71
Calculation and notification of all retirement (including ill-health) benefits in 3 days	95	71.60
Process refund and issue payment within 5 days	98	93.24
Contact next of kin on notification of death in 3 days	100	100.00
Issue statutory notification on receipt of transfer funds in 5 days	95	63.16

4. The Board is invited to comment on this performance
5. This pensions administration presentation has been reviewed and it is suggested that the data be expanded to include numbers of cases when relevant and the following additional services:
 - Transfers out actuals
 - Issue of Annual Benefits Statement by the statutory deadline (currently 31 August)
 - Treatment of new joiners
 - Quality of data
 - Contributions from employers received by statutory deadline
6. Additionally information in respect of other aspects of Fund activity can be provided as follows:

Communications

- Despatch of Scheme booklet when required
- Speed of response to telephone calls
- Issue of forms eg expression of wish
- Notification of changes to Scheme rules
- Availability of Annual Pension Fund Report and Statement of Accounts
- Contact with employers
- Posting of material on website
- Member satisfaction survey

Investment and funding

- Improvement in funding level
- Investment performance

Internal dispute cases

- Numbers and progress

Audit reports

- Internal audit
- Annual opinion from external audit
- Annual letter and report from external audit

7. Tables and commentary covering the most current information on all the above services could be presented to the Board at each of its meetings.
8. The Board is asked to consider whether the information discussed in this report would meet its requirements for regular performance monitoring and to comment as it sees fit.

Financial Implications

9. Whilst the provision of performance monitoring information should assist in the efficient and effective management of the Pension Fund there are no financial implications arising from this report.

Risk Management Implications

10. All risks are included within the Pension Fund Risk Register.

Equalities implications

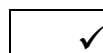
11. There are no direct equalities implications arising from this report.

Council Priorities

12. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Chief Financial Officer

Date: 24 October 2016

Ward Councillors notified:

Not applicable as the report is relevant to all wards.

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: 2 November 2016

Subject: Information Report – Compliance with The Pensions Regulator Code of Practice

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Compliance with The Pensions Regulator Code of Practice

Section 1 – Summary

This report advises the Board of The Pensions Regulator’s “Code of practice no.14” entitled *Governance and administration of public service pension schemes*, summarises the Funds compliance with it and invites comment from the Board.

FOR INFORMATION

Section 2 – Report

1. The Pensions Regulator (Regulator) was established under the Pensions Act 2004 to regulate work-based pensions. The Public Service Pensions Act 2013 introduced an expanded role for the Regulator in overseeing the major work-based pension schemes for those working in the public services.
2. Under the 2013 Act the Regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes.
3. In January 2015 the Regulator published “Code of Practice no.14” entitled *Governance and administration of public service pension schemes which* came into force in April 2015. It sets out the legal requirements for public service pension schemes in respect of specific matters, practical guidance and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
4. The Code can be accessed at:

<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>
5. The core areas covered by the Code are:
 - Governing your scheme
 - Managing risks
 - Administration
 - Resolving issues
6. Attached is a table listing the core areas and their sub-divisions, detailing the legal requirements and The Pension Regulator’s Guidance and summarising the Harrow position.
7. The Board are invited to review the table and comment as they see fit.

Financial Implications

8. Whilst matters discussed in this report have very significant financial implications there are none arising directly from it.

Risk Management Implications

9. The management of risks is a key part of this report.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name Dawn Calvert Director of Finance

Date: 24 October 2016

Ward Councillors notified: Not applicable as the report affects all wards

Section 4 - Contact Details

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

Background Papers - None

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CORE AREA AND SECTION	LEGAL REQUIREMENTS	THE PENSION REGULATOR'S GUIDANCE	HARROW POSITION
<p>1. Governing your scheme (33-99)</p>			
<p>1.1 Knowledge and understanding required by Pension Board members (34-60)</p>	<p>A member of the Pension Board must be conversant with:</p> <ul style="list-style-type: none"> - the rules of the scheme - any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme <p>A member of the Pension Board must have knowledge and understanding of:</p> <ul style="list-style-type: none"> - the law relating to pensions - any other matters which are prescribed in regulations <p>The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board</p>	<p>Schemes should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented. However, it is the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board.</p>	<p>The Director of Finance is responsible for ensuring that a framework for enabling Pension Board members to acquire and retain the knowledge they need to carry out their duties is in place. At its first meeting on 25 June 2015 the Board was provided with a copy of, and introduction to, The Shadow Advisory Board's publication "Local Government Pension Scheme (LGPS): Guidance on the creation and operation of Local Pension Boards in England and Wales" and were introduced to the Pensions Regulator's Code of Practice in relation to knowledge and understanding.</p> <p>They were also provided with:</p> <ul style="list-style-type: none"> - Terms of Reference - Code of Conduct - Governance Compliance Statement - Statement of Investment Principles - Funding Strategy Statement <p>Arising from the first meeting of the Board a full-day training session was provided by Aon Hewitt covering:</p> <ul style="list-style-type: none"> - Actuarial and Governance Matters - Investment <p>All members of the Board attended this training. The agendas of subsequent meetings have provided some level of technical training through eg consideration of the Fund's Annual Accounts, investment and management expenses, the actuarial valuation and socially responsible investment.</p> <p>Members of the Board have also been invited to the training sessions offered prior to each meeting of the Pension Fund Committee.</p> <p>However, few further specific training opportunities have been provided and members have not been asked to identify their personal training needs.</p> <p>This will be rectified at the meeting of the Board on 2 November 2016.</p>
<p>Conflicts of interest and representation</p>	<p>A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the Board is established.</p> <p>In relation to the Pension Board, scheme regulations must include provision requiring the scheme manager to be satisfied:</p> <ul style="list-style-type: none"> - that a person to be appointed as a member of the Pension Board does not have a conflict of interest - from time to time, that none of the Pension Board has a conflict of interest <p>Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.</p> <p>Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers</p>	<p>A conflict of interest may arise when a pension board member in fulfilling his/her statutory role of assisting the scheme manager in securing compliance with scheme regulations and other requirements has a separate personal interest (financial or otherwise) the nature of which gives rise to a possible conflict with this statutory role</p> <p>The "seven principles of public life" should be applied to all pension board members in the exercise of their functions.</p>	<p>Each member of the Pension Board, prior to applying for / being appointed to the Board, was advised that he/she must be able to act impartially in the interests of both employees and employers in the Fund and must act in accordance with the "seven principles of public life" - selflessness, integrity, objectivity, accountability, openness, honesty and leadership.</p> <p>The Terms of Reference of the Board include an expectation that, where applicable, members are expected to act in accordance with the Code of Conduct for Councilors and the Pensions Regulator's Code of Practice.</p> <p>The Board were provided with a copy of the Code of Conduct for Councilors which discusses pecuniary and other interests and the "seven principles of public life" (extended to ten for Harrow) and agreed to abide by it.</p> <p>At the beginning of each meeting Board members are asked to disclose any "pecuniary or non pecuniary interests, arising from business to be transacted at this meeting."</p> <p>The Board includes two employer representatives and two member representatives.</p>

<p>1.3 Publishing information about schemes (92-99)</p>	<p>The scheme manager must publish information about the pension board for the scheme and keep that information up to date.</p> <p>The information must include:</p> <ul style="list-style-type: none"> - who the members of the pension board are - representation on the board of members of the scheme - the matters falling within the pension board's responsibility. 	<p>Public service pension schemes should have a properly constituted, trained and competent pension board. Scheme managers must publish the information required about the pension board and keep that information up to date.</p> <p>Schemes should publish useful information about the pension board such as:</p> <ul style="list-style-type: none"> - the employment and job title (where relevant) and any other relevant position held by each board member - the pension board appointment process - who each pension board member represents - the full terms of reference for the pension board, including details of how it will operate, and - any specific roles and responsibilities of individual pension board members. <p>Schemes should consider publishing information about pension board business eg board papers, agendas and minutes and encourage scheme member engagement and promote a culture of transparency.</p> <p>Schemes should have policies and processes to monitor all published data to ensure it is accurate and complete.</p>	<p>The Council's website provides easy access to the Pension Board Terms of Reference and agendas, reports and minutes of all meetings</p> <p>The Terms of Reference include:</p> <ul style="list-style-type: none"> - Role of the Board - Membership, including details of representation, voting rights, election of Chair and Deputy Chair, co-opting of additional members - Appointment process - Standards of conduct and conflicts of interest - Knowledge and skills - Accountability - Decision making - Quorum - Frequency of meetings - Publication of Board information - Advice to the Board - Expense reimbursement - Definition of terms <p>The agenda for each meeting includes the name of each member of the Board and the body he/she represents. The meetings of the Board are advertised on the Council's website, meetings can be observed by anyone who wishes to attend and, apart from one item, all reports so far considered by the Board are available for public scrutiny.</p> <p>Reference is also made to the Pension Board in the Fund's Annual Report and Financial Statements.</p>
<p>2. Managing risks (100-120)</p>	<p>The scheme manager must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.</p> <p>For these purposes "internal controls" means:</p> <ul style="list-style-type: none"> - arrangements and procedures to be followed in the administration and management of the scheme - systems and arrangements for monitoring that administration and management - arrangements and procedures to be followed for the safe custody and security of the assets of the scheme 	<p>Scheme managers must establish a system of internal controls which should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.</p> <p>The controls should address significant risks which are likely to have a material impact on the scheme.</p> <p>Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.</p>	<p>The Fund has adopted an extensive Risk Register comprising approximately 50 significant risks split into the following categories:</p> <ul style="list-style-type: none"> - Governance - Funding - Assets and liabilities - Funding - Investment Strategy - Investment - Operational - Accounting <p>The Register is reviewed regularly and responsibility is assigned to a "Control owner" and a more senior "Risk owner".</p> <p>A clear separation of duties is established between the Pension Fund Committee, Pension Board, officers, fund managers and custodians.</p> <p>Officers, both those involved in investments and those responsible for the payment of benefits and the maintenance of records, are subject to strict separation of duties and the monitoring of performance.</p> <p>Both internal and external audit regularly review the operation of the Fund and their recommendations are almost always implemented.</p>
<p>3. Administration (121-211)</p>	<p>Scheme managers must keep records of information relating to:</p> <ul style="list-style-type: none"> - member information - transactions - pension board meetings and decisions. <p>The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014</p>	<p>Schemes should be able to demonstrate to the regulator, where required, that they keep accurate up-to-date and enduring records to be able to govern and administer their pension scheme efficiently</p> <p>Internal controls should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.</p>	<p>The Council uses the well-established Altair computer software to maintain its records up to date on an ongoing basis.</p> <p>For active members records are kept up-to-date via a monthly interface report run from the payroll system ensuring that starters, leavers and changes of address are all properly recorded. Pay details are uploaded at year end.</p> <p>For pensioners a reminder is sent out each year to update, where necessary, changes of address and bank details. Deferred members are reminded each year to advise the Council of changes of address and invited to update their nomination for death grant payments.</p> <p>Employers are provided with spreadsheet templates to advise the Council of new starters, changes of address and monthly contributions.</p> <p>Full details of all Pension Board meetings including agendas, reports and minutes are easily accessible via the Council's website</p> <p>Operational issues are key components in the Fund's risk register which is reviewed at least once a year.</p>
<p>3.1 Scheme record-keeping (122-146)</p>			

<p>3.2 Maintaining contributions (147-186)</p>	<p>Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable.</p> <p>Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period'), or earlier if required by scheme regulations.</p> <p>Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report.</p> <p>The law requires schemes to disclose information about benefits and scheme administration to scheme members and others</p> <p>The Code summarises the legal requirements in respect of:</p> <ul style="list-style-type: none"> - Benefit statements - Other information about scheme administration - Who is entitled to information - When basic information is to be provided - What information must be disclosed on request - How benefit statements and other information must be provided 	<p>Scheme managers should ensure that there are effective procedures and processes in place to identify payment failures to the regulator. A 'payment failure' is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period. A 'materially significant payment failure' refers to a payment failure which is likely to be of material significance to the regulator in the exercise of its functions</p> <p>Schemes should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.</p> <p>Adequate procedures and processes are likely to involve developing a record to monitor the payment of contributions</p> <ul style="list-style-type: none"> - monitoring the payment of contributions - managing overdue contributions, and - reporting materially significant payment failures 	<p>All contributions are set in accordance with the Actuary's Rates and Adjustments Certificate and all employers are aware of the statutory requirements for the payment of these contributions.</p> <p>At the beginning of each financial year a template is sent to all employers detailing their monthly contributions and this is updated in accordance with payroll records as necessary.</p> <p>Checks are made on payments made each month and reconciled with the Pension Fund bank account.</p> <p>If payments are not received by the due date the employer is reminded of his obligations but this is rarely necessary at Harrow.</p> <p>The payment of contributions is specifically identified within the risk register and the Pension Fund Committee are advised that sufficient resources are in place to carry out the necessary transaction processing, procedures exist to identify late payments and that both internal and external audit reviews take place.</p>
<p>3.3 Providing information to members (187-188)</p>	<p>Schemes should design and deliver communications to scheme members in a way that ensures they are able to engage with their pension provision. Information should be clear and simple to understand as well as being accurate and easily accessible.</p> <p>Schemes should attempt to make contact with their scheme members and, where contact is not possible, should carry out a tracing exercise.</p> <p>Where a person has made a request for information, if it is not readily available, receipt should be acknowledged with an indication as to when the information will become available. Scheme managers must provide information in accordance with the time periods specified in the Public Service Pensions Act 2013 and Disclosure Regulations 2013.</p> <p>To promote transparency, schemes should make information readily available at all times to ensure that prospective and existing members are able to access information when they require it.</p>	<p>The Fund's main vehicle for communicating with its members is the Annual Newsletter. It is sent to all Pensioners and is made available on-line to all active members. It covers a wide range of matters relevant to the Scheme overall and the Harrow Fund in particular. The current version, published in July 2016 covers</p> <ul style="list-style-type: none"> - Annual Benefit Statement 2016 - Contribution Pay Bands - National Fraud Initiative - Proposed Limit on Public Sector Exit Payments - New LGPS NI database - Tell us Once Service - Death Grant - Savings in Retirement - Pensions and Tax Changes - Previous Pension Rights - Annual Pension Fund Report - Performance Monitoring <p>Annual Benefits Statements are sent to all active and deferred members.</p> <p>Additional communications are also sent out if there is a significant change to the Scheme or new information regarding pensions becomes available eg the cessation of contracting out. For tracing purposes we work with DWP and their letter forwarding service if a pension is due for payment and no up-to-date address is held. If a request for information is received and we are not able to reply within 10 days we send an acknowledgement. An automatic acknowledgement is sent to each request received by email. The very extensive "Communications Policy Statement," available on the Council's website goes into more detail on the arrangements made by the Council to communicate with members and other stakeholders. One to one meetings can be arranged.</p>	<p>The Fund's main vehicle for communicating with its members is the Annual Newsletter. It is sent to all Pensioners and is made available on-line to all active members. It covers a wide range of matters relevant to the Scheme overall and the Harrow Fund in particular. The current version, published in July 2016 covers</p> <ul style="list-style-type: none"> - Annual Benefit Statement 2016 - Contribution Pay Bands - National Fraud Initiative - Proposed Limit on Public Sector Exit Payments - New LGPS NI database - Tell us Once Service - Death Grant - Savings in Retirement - Pensions and Tax Changes - Previous Pension Rights - Annual Pension Fund Report - Performance Monitoring <p>Annual Benefits Statements are sent to all active and deferred members.</p> <p>Additional communications are also sent out if there is a significant change to the Scheme or new information regarding pensions becomes available eg the cessation of contracting out. For tracing purposes we work with DWP and their letter forwarding service if a pension is due for payment and no up-to-date address is held. If a request for information is received and we are not able to reply within 10 days we send an acknowledgement. An automatic acknowledgement is sent to each request received by email. The very extensive "Communications Policy Statement," available on the Council's website goes into more detail on the arrangements made by the Council to communicate with members and other stakeholders. One to one meetings can be arranged.</p>

<p>4. Resolving issues (212-275)</p>	<p>4.1 Internal dispute resolution (213-240)</p> <p>Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme. 'Pension disputes' cover matters relating to the scheme between the managers and one or more people with an interest in the scheme. These exclude 'exempted disputes'.</p> <p>There are certain 'exempted disputes' to which the internal dispute resolution procedure will not apply. These include disputes where proceedings have commenced in any court or tribunal, or where the Pensions Ombudsman has commenced an investigation.</p> <p>A person has an interest in the scheme if they:</p> <ul style="list-style-type: none"> - are a member or surviving non-dependant beneficiary of a deceased member of the scheme - are a widow, surviving civil partner or surviving civil partner or surviving dependant of a deceased member of the scheme - are a prospective member of the scheme - have ceased to be a member, beneficiary or prospective member or - claim to be in one of the categories mentioned above and <p>Dispute resolution arrangements may require people with a 'specified person' in order for that person to consider and give their decision on those matters. The specified person's decision may then be confirmed or replaced by the decision taken by the scheme manager after</p> <p>Scheme managers and specified persons (if used as part of a scheme's procedure) must take the decision required on the matters in dispute within a reasonable period of receiving the application. They must notify the applicant of the decision within a reasonable period of having taken it.</p> <p>Internal dispute resolution procedures must state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application and the manner in which any decisions required in relation to such an application are to be reached and given. The procedure must specify a reasonable period within which applications must be made</p> <p>Scheme managers must provide information about the scheme's dispute resolution procedure as well as information about The Pensions Advisory Service and the Pensions Ombudsman to certain people at certain stages.</p>	<p>Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision which affects them), they have the right to ask for that matter to be reviewed.</p> <p>Internal dispute resolution arrangements provide formal procedures and processes for pension scheme disputes to be investigated and decided upon quickly and effectively. They play a key role in the effective governance and administration of the scheme.</p> <p>Schemes can operate a two-stage procedure with a 'specified person' undertaking the first-stage decision. Alternatively, they may adopt a single-stage procedure if they consider that it is more appropriate for their scheme.</p> <p>Generally, the law does not prescribe the detail of the dispute resolution procedure and schemes should make their own decisions on this and ensure it is fit for purpose.</p>	<p>The Fund has a two stage process in line with the Local Government Pension Scheme Regulations. The process is publicised in the Fund's Internal Dispute Resolution Procedure which is regularly updated, most recently in April 2015. Due to recent staffing and structural changes it is currently being revised.</p> <p>The Procedure can be found on the Fund's website and is mentioned in the majority of letters sent to Scheme members.</p> <p>The Procedure emphasises the Fund's wish to seek the resolution of complaints without using the Procedure and comments that almost all problems are dealt with by a telephone call or a visit to the pensions office.</p> <p>The Procedure clearly describes the process to seek the resolution of a dispute including</p> <ul style="list-style-type: none"> - who the Procedure applies to - what alternative resolution processes are available - how to apply for consideration under the Procedure - the First Stage process including the designation of the adjudicator - the Second Stage process including the designation of the adjudicator - the time limits under the Procedure <p>The Procedure also includes contact details of, and information about, The Pensions Advisory Service and the Pensions Ombudsman to whom a dispute can be escalated if the claimant remains dissatisfied.</p>
<p>4.2 Reporting breaches of the law (241-275)</p>	<p>Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:</p> <ul style="list-style-type: none"> - a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with - the failure to comply is likely to be of material significance <p>People who are subject to the reporting requirement for public service pension schemes are:</p> <ul style="list-style-type: none"> - scheme managers - members of pension boards - any person who is otherwise involved in the administration of a public service pension scheme - employers - professional advisers including auditors, actuaries and fund managers - any person who is otherwise involved in advising the managers of the scheme in relation to the scheme 	<p>Schemes should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and the Pensions Regulator Guidance. Schemes should provide training for scheme managers and pension board members.</p> <p>Scheme managers and Board members should have a sufficient level of knowledge and understanding of legal requirements and reporting processes to allow them to fulfil their potential reporting duties.</p>	<p>At the initial training session provided for the Board on 27 August 2015 members were explicitly advised of the requirement on them, and others, to report breaches of the law to the Regulator where there is reasonable cause to believe that</p> <ul style="list-style-type: none"> - a legal duty relating to the administration of the scheme has not been, or is not being, complied with - the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions <p>However, the Fund does not yet have a "Reporting Breaches" procedure and approval to such will be sought shortly.</p>

The report must be made in writing as soon as is reasonably practicable.

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REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: Knowledge and Understanding of Local Government Pension Scheme

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Local Pension Board – A technical Knowledge and Skills Framework: CIPFA/Barnett Waddingham Training and Networking Seminar Programmes: CIPFA/Barnett Waddingham

Section 1 - Summary

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 CIPFA and The Pensions Regulator and consider how they wish to comply with these requirements.

For information

Section 2 – Report

1. At their first meeting on 25 June 2015 the Board were advised of the publication *Guidance on the creation and operation of Local Pension Boards in England and Wales*, Section 6 by the, then, Shadow Advisory Board. This Section referred to the Pension Act 2004 and specifically 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 Board agreed that, initially, they would seek to comply with these requirements by receiving relevant documentation and attending a customised introductory course on various aspects of the Local Government Pension Scheme to be provided by Aon Hewitt.
3. The course was presented on 27 August 2015 and all members of the Board were able to attend. Matters covered were:

Governance and Key Legislation

- The Legislative Framework
- Structure and Governance of the LGPS
- Key Governance Requirements
- LGPS Contributions and Benefits
- Current Hot Topics

Actuarial and Funding Matters

- Introduction to Actuaries and Actuarial Work
- Triennial Actuarial Valuation
- Funding Strategy and Intervaluation Monitoring
- Employers in the Fund
- Bulk Transfers
- Pension Accounting and Auditing
- Actuarial Hot Topics

Investment

- Investment Strategy and Financial Markets
- Investment performance and Risk Management
- Financial Services Procurement

4. Since this presentation additional ad hoc training has been offered including:

Board Meetings

- Triennial valuation – presentations by the Actuary at each meeting in 2016

Invitation to Pre-meeting Training of Pension Fund Committee

- Triennial valuation
- Environmental, Social and Governance issues
- Infrastructure

Seminars

- Local Pension Boards – One Year On

5. Whilst the training offered to date has probably complied with the basic requirements it is important for Board members to keep up to date and to compare their current levels of knowledge and skills against best practice as recommended by CIPFA and The Pensions Regulator.
6. Guidance is available via the CIPFA publication *local pension boards – A Technical Knowledge and Skills Framework* attached to this report. The *Framework* includes as its Annex A *Knowledge and Skills Responsibilities under the Pensions Regulator Code of Practice No 14*.
7. Board members are invited to contact the Treasury and Pension Fund Manager if they feel that they could benefit from further training.
8. Courses for Board members are available commercially with some of the the most appropriate likely to be provided by CIPFA/Barnett Waddingham, Aon Hewitt, Hymans Robertson and PLSA. A current example from CIPFA/Barnett Waddingham is attached.
9. Members will be kept advised of training opportunities available. They are specifically asked whether they wish to attend any of the sessions currently being offered by CIPFA/Barnett Waddingham..

Financial Implications

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

Risk Management Implications

11. The purpose of this report is to remind the Board of their knowledge and skills responsibilities to enable them to carry out their duties effectively.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date:	20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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Section 4 - Contact Details

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

Background Papers - None

local pension boards

A Technical Knowledge and Skills
Framework

**Barnett
Waddingham**
a true partnership approach



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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local pension boards

A Technical Knowledge and Skills
Framework

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Acknowledgements

This framework has been developed by Nigel Keogh (CIPFA Pensions Technical Manager) with guidance, direction and support from the CIPFA Pensions Panel.

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Independent Consultant

Paul Dale – London Borough of Merton

Geoff Dobson – Suffolk County Council

Geik Drever – West Midlands Pension Fund

Jeff Houston – Local Government Employers Pensions Committee

John Hattersley – South Yorkshire Pensions Authority

Nicola Mark – Norfolk Pension Fund

Susan Martin – London Pensions Fund Authority

Paul Mayers – National Audit Office

Richard McIndoe – Glasgow Council

Chris Megainey – Department for Communities and Local Government

Graeme Russell (Vice Chairman) – Torfaen Borough Council

Trevor Salmon – Northern Ireland Local Government Officers' Superannuation Committee

Mark Taylor – Audit Scotland

Chris West – Coventry City Council

John Wright – Hymans Robertson

The Panel would like to thank Annemarie Allen at Barnett Waddingham for her contributions to the guidance.

The Panel would also like to acknowledge the role of the publication's sponsor, Barnett Waddingham, in helping to ensure that this key piece of guidance is available across the Local Government Pension Scheme.

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1. Purpose, Scope and Status of this Guidance

PURPOSE

- 1.1 A great deal of work has been done in recent years to address the provision of training to those who are involved in the administration of public service pension schemes. However in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role, it is difficult to ascertain whether training is truly effective.
- 1.2 In an attempt to ensure that training can be delivered efficiently and effectively by identifying and focusing on the key knowledge areas, in recent years CIPFA has developed, with the assistance of expert practitioners, frameworks covering the knowledge and skills requirements for officers and elected members/non-executives involved in the administration of public service pension schemes.
- 1.3 The proposals in this publication are intended to further promote good governance in public service pension schemes' pension boards by extending these frameworks to cover the training and development of their board members. The objective is to improve knowledge and skills in all the relevant areas of activity of a pension board and assist board members in achieving the degree of knowledge appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board as required under Section 248a of the *Pensions Act 2004*¹, as amended by the *Public Service Pensions Act 2013*.

1. Section 248a of the *Pensions Act 2004* sets out the following:

Requirement for knowledge and understanding: pension boards of public service pension schemes

- (1) *This section applies to every individual who is a member of the pension board of a public service pension scheme.*
- (2) *An individual to whom this section applies 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.*
- (3) *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.*
- (4) *The degree of knowledge and understanding required by subsection (3) is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.*

- 1.4 This guidance is intended to complement the Pensions Regulator's *Code of Practice No 14: Governance and Administration of Public Service Pension Schemes* (2015)². The *Code of Practice No 14* sets out the fact that the law requires, amongst other things, that local pension board members be conversant with the rules of the scheme and documents relating to its administration. Additionally, in the context of the Local Government Pension Scheme (LGPS) in particular, this will bring board members into contact with matters relating to investments, actuarial valuations, third party provision, scheme assurance, accounting and auditing³. This guidance therefore focusses on those areas by expanding on the specifics of the knowledge and skills requirements associated with public service pension schemes in general and the LGPS in particular, and assisting both scheme managers and pension board members in discharging their responsibilities as set out in the Pensions Regulator's *Code of Practice No 14* insofar as they apply to knowledge and skills (a summary of the respective responsibilities of board members and the scheme manager can be found at Annex A).

SCOPE

- 1.5 The guidance is set in the context of LGPS pension boards in England and Wales but pension boards in other sectors and jurisdictions may find the frameworks of use in determining their own training programmes for pension board members.

2. www.thepensionsregulator.gov.uk/docs/code-14-public-service.pdf

3. The Pensions Regulator's *Code of Practice 14: Governance and Administration of Public Service Pension Schemes* states in paragraphs 42 to 44:

'For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement.

Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:

- *the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme*
- *statements of assurance (for example, assurance reports from administrators)*
- *third party contracts and service level agreements*
- *stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues*
- *scheme annual reports and accounts*
- *accounting requirements relevant to the scheme*
- *audit reports, including from outsourced service providers, and*
- *other scheme-specific governance documents.'*

- 1.6 The framework is intended to have two primary uses:
- as a tool for scheme managers in meeting the Pensions Regulator's *Code of Practice No 14* which states that scheme managers should '*establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members*'
 - as an assessment tool for individuals to measure their progress and plan their development in order to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of a pension board.
- 1.7 The framework is intended to apply to all pension board members. However, it has been designed so that organisations and individuals can tailor it to their own particular circumstances.
- 1.8 In addition, in recognition of the more onerous roles of chairs, the framework also includes a specimen role specification for the chair of a pension board (see the example at Annex B).

STATUS

- 1.9 In 2013, CIPFA issued a *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- 1.10 The *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* is underpinned by five key principles:
1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making, governance and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
 2. Organisations have the necessary resources in place to acquire and retain the necessary public sector pension scheme finance knowledge and skills.
 3. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
 4. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the *CIPFA Pensions Finance Knowledge and Skills Frameworks*.
 5. The organisation has designated a named individual⁴ to be responsible for ensuring that policies are implemented.
- 1.11 In setting out the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*, the Institute stated that '*this Code of Practice applies to all individuals that take on a*

4. The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS, for example, it would be the accounting officer.

decision-making, scrutiny or oversight role. This includes (where relevant to the governance structures employed in the management of the LGPS):

- *officers of the administering authority*
- *elected members of the administering authority*
- *employer representatives*
- *member-nominated representatives*
- *pensioner representatives*
- *co-opted members*
- *independent advisors*
- *internal auditors and audit committee members*
- *any other individuals involved in a decision-making, scrutiny or oversight role.*

The requirements will also apply to the members of local pension boards as set out in section 5 of the Public Service Pensions Bill, as and when such boards are established.'

- 1.12** It is therefore the professional responsibility of the named individual referred to under principle 5 above to establish and maintain policies and arrangements for acquiring and retaining knowledge and skills to support their pension board members. This professional requirement is in line with the Pensions Regulator's *Code of Practice No 14* as set out in paragraph 38 of that Code⁵.
- 1.13** This guidance is offered as good practice in line with the previous *CIPFA Pensions Finance Knowledge and Skills Frameworks*, and is intended to assist practitioners in meeting their responsibilities under CIPFA's *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (2013), particularly principle 4.

5. Paragraph 38 of the Pensions Regulator's *Code of Practice No 14* states:
'Schemes should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.'

2. Policy and Legislative Background

- 2.1 On 1 April 2015, the governance structure of the LGPS fundamentally changed as a result of new governance requirements introduced by *The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015*.
- 2.2 These changes have their origins in the final recommendations of the Independent Public Service Pensions Commission (IPSPC) chaired by Lord Hutton of Furness. In June 2010 the IPSPC was formed to undertake a fundamental structural review of public service pension provision and to make recommendations to the chancellor and chief secretary on future pension arrangements. The IPSPC produced an interim report in October 2010 and a final report in March 2011⁶.
- 2.3 In the final report, the Commission concluded that (page 126):
'scheme members in all the public services should be able to nominate persons to pension boards and committees along similar lines to the rights of members in the private sector to nominate persons to sit on boards of trustees. Pension boards should therefore include independent professionals and scheme members in similar proportions as apply in the private sector to boards of trustees. It is also very important that as well as the "lay persons" there are also independent members, usually professionally trained and with experience of the pensions environment.'
- 2.4 The Commission went on to make the following recommendation:
'Every public service pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent pension board, with member nominees, responsible for meeting good standards of governance, including effective and efficient administration (recommendation 17a).'
- 2.5 The Commission's recommendation was taken forward in the drafting of the *Public Service Pensions Bill* (subsequently the *Public Service Pensions Act 2013*).
- 2.6 Under Regulation 5 of the *Public Service Pensions Act 2013*, the responsible authority⁷ for each public service pension scheme established under the 2013 Act is required to make

6. www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf

7. The "responsible authority" for each public service pension scheme is defined in Regulation 2 of the *Public Service Pensions Act 2013* as 'the person who may make scheme regulations.' For local government in England and Wales, this is set out in Schedule 2 of the Act as the secretary of state (DCLG).

provision in scheme regulations that requires each pension scheme manager⁸ to establish a pension board to assist the scheme manager in relation to the following:

- (a) *securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;*
- (b) *securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;*
- (c) *such other matters as the scheme regulations may specify.*

2.7 Regulation 5 further directs that the scheme manager must include within its own scheme regulations provisions that require the scheme manager:

- (i) *to be satisfied that a person to be appointed as a member of the board does not have a conflict of interest, and*
- (ii) *to be satisfied from time to time that none of the members of the board has a conflict of interest;*
- (iii) *ensure that a member of the board, or a person proposed to be appointed as a member of the board, be able to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of provision under the above;*
- (iv) *ensure that the board include employer representatives and scheme member representatives in equal numbers.*

2.8 As required under Regulation 5, the Department for Communities and Local Government (DCLG) laid an amendment to the *Local Government Pension Scheme Regulations 2013* on 28 January 2015, setting out the arrangements for establishing pension boards in the LGPS⁹. The relevant Regulations (Regulations 105 to 109 of the *Local Government Pension Scheme Regulations 2013* (as amended) are reproduced in full at Annex C for ease of reference.

2.9 A working group of the Shadow LGPS Scheme Advisory Board Governance and Standards Subcommittee has produced detailed guidance to scheme managers (administering authorities) to assist them in establishing local pension boards. This guidance can be found at www.lgpsboard.org/index.php/about-the-board/board-guidance

8. Regulation 4 of the *Public Service Pensions Act 2013* requires that public service pension schemes established under this Act (such as the LGPS from 1 April 2014) set out in scheme regulations who will be responsible for managing or administering the scheme. In the case of the LGPS, Regulation 53 of the *Local Government Pension Scheme Regulations 2013* sets out that each administering authority is designated the “scheme manager” for their fund.

9. *The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.*

3. Key Skills

- 3.1 The CIPFA Pensions Panel, with input from technical specialists covering each element of the skills matrix, has identified the key skills that lie at the core of successful public sector pension scheme administration.

SCOPE OF THE FRAMEWORK

- 3.2 Due to the complexity of pensions administration, these skill sets extend across several disciplines from accountancy and audit into areas of investment and actuarial finance, as well as knowledge of the legislative and governance environment. In total there are eight areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pensions finance. They are:

- pensions legislation
- public sector pensions governance
- pensions administration
- pensions accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and product knowledge
- actuarial methods, standards and practices.

These are expanded upon below.

- 3.3 The Institute recognises that there will of course be other technical (non-pensions related) and “softer” skills required in order to be competent in the role of a pension board member and Regulation 107 of the *Local Government Pension Scheme Regulations 2013* (as amended) makes specific reference to board appointees having the “capacity” to undertake the role. Whilst the Regulations do not define “capacity” in this context, the guidance referred to at paragraph 2.9 takes this to mean that board members should have ‘*time to commit to attend meetings, undertake training and effectively represent employers and (scheme) members (as appropriate).*’ The “soft” skills implied here are considered to be outside the scope of this framework but should also be considered when determining the ability of pension board members to effectively discharge their duties.

PENSIONS LEGISLATION

- 3.4 The pensions landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions, the tax system, the Pensions Regulator etc.

- 3.5 A knowledge of this framework and the way in which it impacts upon the operations of individual schemes is key to understanding the context within which public sector pension schemes operate and the statutory obligations they are required to discharge.

PUBLIC SECTOR PENSIONS GOVERNANCE

- 3.6 On 1 April 2015, the governance structure that surrounds public sector pension schemes changed significantly. The *Public Service Pensions Act 2013* has introduced new bodies and relationships into what, in the LGPS in particular, was an already complex governance network.
- 3.7 Understanding how the pension board interacts with the other elements of this governance structure – the administering authority, the Scheme Advisory Board, the responsible authority (eg DCLG), the Pensions Regulator etc – and the various roles and responsibilities of those bodies is critical to the success of the board.
- 3.8 Also of key importance is a knowledge of the governance frameworks that apply within the wider pensions industry (such as the Myners principles and the *UK Stewardship Code* (FRC, 2010)); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example *Delivering Good Governance in Local Government: Framework* (CIPFA, 2007)).

PENSIONS ADMINISTRATION

- 3.9 Pensions administration is perhaps the most highly regulated area of the LGPS. Administering scheme benefits, contributions and other transactions is highly complex and is governed by extensive scheme regulations, as well as industry-wide requirements on disclosure, record-keeping, data maintenance, dispute resolution etc.
- 3.10 Understanding these requirements and assisting the administering authority to ensure compliance with the various regulations, standards and codes is a key role of the pensions board, which makes pensions administration a key strand of the knowledge and skills framework.

PENSIONS ACCOUNTING AND AUDITING STANDARDS

- 3.11 The way in which pension schemes are accounted for, both as a scheme and by the sponsoring employer(s), plays a significant part in the knowledge and skills framework. The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.
- 3.12 In addition, both internal and external auditors play a significant role in assuring that the administering authority complies with statutory requirements. Understanding the scope of their role, and the roles played by providers of third party assurance on outsourced services, is key for local pension board members.

PENSIONS SERVICES PROCUREMENT AND RELATIONSHIP MANAGEMENT

- 3.13** Such are the scale, diversity and technical requirements of pensions operations, the use of outsourcing is commonplace. Whether it is the use of actuaries, fund managers, pensioner payroll providers or third party administrators, the skills and knowledge required to procure and manage outsourced services are central to scheme management in the public sector.
- 3.14** In some instances organisations will have specialist procurement units who will play a large part in the procurement process. In such cases many of the requirements of the framework may be met by virtue of the pension board member having access to external technical expertise. In these circumstances, users of the framework should adapt the level of detail in this skill set accordingly.

INVESTMENT PERFORMANCE AND RISK MANAGEMENT

- 3.15** In the LGPS and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of pension board members.
- 3.16** Administering authorities are aware of the requirement to apply the same rigour to an assessment of their own performance and the performance of those who work on their behalf. Frameworks and targets must be devised and set, and performance monitored against them and reported to stakeholders. Pension board members should be equipped with a sufficient level of knowledge to enable them to assist the administering authority in ensuring that this is done effectively.

FINANCIAL MARKETS AND PRODUCT KNOWLEDGE

- 3.17** In schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (the investment activities of LGPS funds for example can be split into two groups: those funds that use external managers to manage all of their investment portfolio; and those that undertake some or all of their investment activities using in-house investment managers).

ACTUARIAL METHODS, STANDARDS AND PRACTICES

- 3.18** The scheme actuary holds a key position in the financial management of a pension scheme. Pension board members will need to understand, in some level of detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and employers.

THE KNOWLEDGE AND SKILLS FRAMEWORK

- 3.19** In the framework which follows, we have identified the key elements of expertise within each of the above areas of technical knowledge as they apply to pension board members. In addition, Annex D provides an example of how the framework can be used as an assessment tool for individuals.

4. Local Pension Boards: A Technical Knowledge and Skills Framework

Pensions legislation	<p>A general understanding of the pensions legislative framework in the UK.</p> <p>An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.</p> <p>A regularly updated appreciation of the latest changes to the scheme rules.</p>
Pensions governance	<p>Knowledge of the role of the administering authority in relation to the LGPS.</p> <p>An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p> <p>Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.</p> <p>Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.</p> <p>Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p> <p>Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.</p> <p>A detailed knowledge of the duties and responsibilities of pension board members.</p> <p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p> <p>Knowledge of consultation, communication and involvement options relevant to the stakeholders.</p> <p>Knowledge of how pension fund management risk is monitored and managed.</p> <p>Understanding of how conflicts of interest are identified and managed.</p> <p>Understanding of how breaches in law are reported.</p>

Pensions administration	<p>An understanding of best practice in pensions administration, eg performance and cost measures.</p> <p>Understanding of the required and adopted scheme policies and procedures relating to:</p> <ul style="list-style-type: none"> ■ member data maintenance and record-keeping processes ■ internal dispute resolution ■ contributions collection ■ scheme communications and materials. <p>Knowledge of how discretionary powers operate.</p> <p>Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.</p> <p>An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider’s investment and fund performance report and the payment schedule for such arrangements.</p>
Pensions accounting and auditing standards	<p>Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.</p> <p>Understanding of the role of both internal and external audit in the governance and assurance process.</p> <p>An understanding of the role played by third party assurance providers.</p>
Pensions services procurement and relationship management	<p>Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <p>Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p> <p>An understanding of how the pension fund monitors and manages the performance of their outsourced providers.</p>
Investment performance and risk management	<p>Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Awareness of the Myners principles of performance management and the approach adopted by the administering authority.</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>

Financial markets and products knowledge	<p>Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).</p> <p>Understanding of the role of these asset classes in long-term pension fund investing.</p> <p>Understanding of the primary importance of the investment strategy decision.</p> <p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <p>An understanding of the limits placed by regulation on the investment activities of local government pension funds.</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.</p>
Actuarial methods, standards and practices	<p>A general understanding of the role of the fund actuary.</p> <p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>Awareness of the importance of monitoring early and ill health retirement strain costs.</p> <p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p> <p>A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.</p> <p>A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.</p>

5. Framework Status, Reporting and Compliance

DEVELOPMENT AND MAINTENANCE

- 5.1 This framework has been developed by the CIPFA Pensions Panel with input from technical specialists covering each element of the skills matrix.
- 5.2 As noted in chapter 1, it is the professional responsibility of the section 151 officer (or other named officer as appropriate) to establish and maintain policies and arrangements for acquiring and retaining knowledge and skills to support their pension board members. This professional requirement is in line with the requirement set out in paragraph 38 of the Pensions Regulator's *Code of Practice No 14*. This framework is set down as good practice, in line with the previous CIPFA *Pensions Finance Knowledge and Skills Frameworks*, and is intended to assist practitioners in meeting their responsibilities under the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013)*, particularly principle 4.
- 5.3 The Pensions Panel is committed to maintaining and developing the framework as knowledge and skills requirements change over time. Any changes to the framework will go through the same process of expert review and user testing.

REPORTING AND COMPLIANCE

- 5.4 Statement 5 of the “statements to be adopted” in the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* requires funds to report annually in their pension scheme annual reports on:
 - how the knowledge and skills framework has been applied
 - what assessment of training needs has been undertaken
 - what training has been delivered against the identified training needs.

5.5 CIPFA recognises that in some cases members could be appointed to pension boards with little or no prior pensions knowledge. The chief officers and the chair should bear in mind the legal requirements as set out in the Pensions Regulator's *Code of Practice No 14*¹⁰ and have in place a plan that includes pre-induction training, leading into a fuller induction programme.

These factors should be reflected in the training needs assessment and the delivery of training statement in the annual report.

5.6 Again, the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* requirements are aligned with the guidance of the Pensions Regulator, whose *Code of Practice No 14* says this on the subject of demonstrating knowledge and understanding:

'Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help pension board members to demonstrate steps they have taken to comply with legal requirements and how they have mitigated risks associated with knowledge gaps. 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.'

5.7 The Pension Regulator's policy and approach to compliance is set out in its *Compliance and Enforcement Policy for Public Service Pension Schemes* (2015)¹¹.

Practitioners should familiarise themselves with this policy statement.

10. Paragraphs 34 to 36 of the Pensions Regulator's Code of Practice 14 state that:

'A member of the pension board of a public service pension scheme must be conversant with:

- *the rules of the scheme, and*
- *any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.*

A member of a pension board must have knowledge and understanding of:

- *the law relating to pensions, and*
- *any other matters which are prescribed in regulations.*

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

11. www.thepensionsregulator.gov.uk/docs/compliance-policy-public-service-pension.pdf

6. Achieving Framework Standards – Training and Support

- 6.1 To achieve the standards set down in the framework, organisations should as a first step consider undertaking a training needs assessment against the framework standards and developing appropriate training programmes.
- 6.2 The varied nature of training and the need to demonstrate continuous improvement in governance, places a high level of priority on forward planning through a business plan and a related training and development plan.
- 6.3 CIPFA working with Barnett Waddingham offer bespoke assessment, training, support and monitoring programmes for local pension boards and their members which are built around the requirements of this framework. This includes the following elements which can be taken as a whole or in part:
- **Assessment and planning**
 - Individual local pension board member knowledge, understanding and skills assessment.
 - Training plan/programme development.
 - **Training**
 - Pre-appointment and induction training.
 - Initial area specific training such as: pensions legislation and guidance; policies, procedures and working arrangements; overriding legislation and interacting statutory organisations; and investments and funding.
 - Ongoing and subject specific training such as regulatory changes and triennial valuations.
 - Annual refresher training and updates.
 - Member requested training.
 - Bespoke and open courses aimed at retention of knowledge and development of best practice.
 - **Support and mentoring**
 - Ongoing local pension board member mentoring, coaching and support.
 - BWebstream document access and storage system.
 - Training and support materials.
 - **Monitoring and reporting**
 - Ongoing individual local pension board member assessment.

- Monitoring local pension board member training and development, attendance and progress, maintaining records and reporting.

6.4 Please contact Annemarie Allen at Barnett Waddingham on 020 7776 3873 or via annemarie.allen@barnett-waddingham.co.uk or Nigel Keogh at CIPFA on 01204 592311 or via nigel.keogh@cipfa.org to discuss your requirements in the first instance.

7. Further Reading and Sources of Guidance

FROM CIPFA

- Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds* (2014)
- The Role of the Chief Financial Officer in the Local Government Pension Scheme* (2014)
- Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (2013)
- Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom* (2012)
- Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme* (2012)
- Managing Risk in the Local Government Pension Scheme* (2012)
- Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012* (2012)
- Buying Time: A CIPFA Pensions Panel Guide to Procuring Efficiency in Public Sector Pensions Administration* (2011)
- CIPFA Pensions Panel Guide to Stock Lending by Local Authority Pension Funds* (2011)
- CIPFA Pensions Panel Guide to Pension Fund Taxation in the United Kingdom* (2011)
- Narrative Reporting in Public Sector Pension Schemes* (2010)
- Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds* (2009)
- Guidance for Chief Finance Officers Administering LGPS Actuarial Valuations* (2008)
- CIPFA Pensions Panel: Weighing Up Risk Against Reward: An Introductory Guide to Asset-Liability Studies for Local Government Pension Funds* (2007)
- CIPFA Pensions Panel: Freedom of Information Act – Dealing with Requests for Information Relating to Local Authority Pension Funds* (2006)

OTHER SOURCES

- Code of Practice No. 14: Governance and Administration of Public Service Pension Schemes* (The Pensions Regulator, 2015)
- Compliance and Enforcement Policy for Public Service Pension Schemes* (The Pensions Regulator, 2015)

The Pensions Regulator also publishes a range of other helpful materials at www.thepensionsregulator.gov.uk/public-service-schemes.aspx

Local Government Pension Scheme (LGPS) – Guidance on the Creation and Operation of Local Pension Boards in England and Wales (Shadow Scheme Advisory Board, 2015)

OTHER TRAINING AND SUPPORT

The CIPFA Pensions Network provides a range of seminars built around the themes in the *Pensions Finance Knowledge and Skills Frameworks*.

The Pensions Regulator also has an online “Public Service toolkit” available at www.thepensionsregulator.gov.uk/public-service-schemes.aspx

Annex A – Knowledge and Skills Responsibilities under the Pensions Regulator Code of Practice No 14

Where do knowledge and understanding responsibilities rest under the Code of Practice No 14?		Nature of requirement
Pension board member	Scheme manager	
Legal requirements		
Must be conversant with:		Statutory
<ul style="list-style-type: none"> ■ the rules of the scheme ■ any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme. 		
Must have knowledge and understanding of:		Statutory
<ul style="list-style-type: none"> ■ the law relating to pensions ■ any other matters which are prescribed in regulations. 		
Should ensure that the degree of knowledge and understanding they possess is that appropriate for the purposes of enabling them to properly exercise the functions of a member of the pension board.		Statutory
Practical guidance		
	Should help pension board members meet their legal obligations.	Code of Practice (paragraph 37)
	Should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members.	Code of Practice (paragraph 38)

Where do knowledge and understanding responsibilities rest under the Code of Practice No 14?		Nature of requirement
Pension board member	Scheme manager	
	Should designate a person to take responsibility for ensuring that a framework for acquiring and retaining knowledge and skills is developed and implemented.	Code of Practice (paragraph 38)
Areas of knowledge and understanding required		
	Should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant. This will enable them to effectively carry out their role. They should make sure that both the list and the documents are available in accessible formats.	Code of Practice (paragraph 46)
Degree of knowledge and understanding required		
	Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme documentation.	Code of practice (paragraph 47)
	Should assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member.	Code of Practice (paragraph 48)
Acquiring, reviewing and updating knowledge and understanding		
Should invest sufficient time in their learning and development alongside their other responsibilities and duties.	Should provide pension board members with the relevant training and support that they require.	Code of Practice (paragraph 55)
Newly appointed pension board members should be aware that their responsibilities and duties as a pension board member begin from the date they take up their post.	Should offer pre-appointment training or arrange for mentoring by existing pension board members	Code of Practice (paragraph 56)

Where do knowledge and understanding responsibilities rest under the Code of Practice No 14?		Nature of requirement
Pension board member	Scheme manager	
Should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.		Code of Practice (paragraph 57)
Should use a personalised training plan to document training needs.		Code of Practice (paragraph 57)
Pension board members who take on new responsibilities will need to ensure that they gain appropriate knowledge and understanding relevant to carrying out those new responsibilities.		Code of Practice (paragraph 58)
	<p>Learning programmes should:</p> <ul style="list-style-type: none"> ■ cover the type and degree of knowledge and understanding required ■ reflect the legal requirements ■ be delivered within an appropriate timescale. 	Code of Practice (paragraph 58)
Demonstrating knowledge and understanding		
	Should keep appropriate records of the learning activities of individual pension board members and the board as a whole.	Code of Practice (paragraph 59)

Annex B – Suggested Job Description and Role Profile for the Chair of a Pensions Board

PURPOSE OF ROLE

To lead the pensions board in assisting the scheme manager in complying with legislation relating to the governance and administration of the scheme and any requirements imposed by the Pensions Regulator in relation to the scheme; and to ensure the effective and efficient governance and administration of the scheme.

PRINCIPAL RESPONSIBILITIES

- Ensure the board delivers its purpose as set out in the board's terms of reference.
- Prepare for and attend the local pension board meetings, agree the meeting agendas and approve the minutes.
- Scrutinise local pension board papers, lead discussions and provide advice and guidance to the board.
- Ensure that meetings are productive and effective and that opportunity is provided for the views of all board members to be expressed and considered.
- Seek to reach consensus and ensure decisions are properly put to a vote.
- Liaise with the scheme manager on the requirements of the board, including training requirements, budgeting and meeting dates, and lead on resolving member performance issues.
- Write reports required by the scheme manager on the performance of the board and related matters.
- Act as the principal point of contact with the Pensions Regulator, the Scheme Advisory Board and the responsible authority (eg DCLG) in all matters related to the operation of the board.

PERSON SPECIFICATION

Requirement	Essential	Desirable
1. Educational		<p>Appropriate financial experience and training.</p> <p>Knowledge of pension funds and schemes.</p> <p>Demonstrable evidence of knowledge kept up-to-date.</p>
2. Work experience	<p>Chairing meetings, achieving effective outcomes.</p> <p>Experience of risk and performance frameworks.</p>	<p>Previously chaired a board or similar.</p>
3. Abilities, intelligence and special aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment and social skills	<p>Able to establish good working relationships with board members, councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Able to achieve consensus when conflicting views arise.</p> <p>Able to challenge in a constructive manner.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	<p>Diplomacy and tact.</p>
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the pension scheme and fund(s).</p>	
6. Equal opportunities	<p>Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

Annex C – LGPS Governance Regulations 2014

PART 3

Governance

Delegation

- 105.**—(1) *The Secretary of State may delegate any function under these Regulations.*
- (2) *An administering authority may delegate any function under these Regulations including this power to delegate.*

Local pension boards: establishment

- 106.**—(1) *Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—*
- (a) *to secure compliance with—*
 - (i) *these Regulations,*
 - (ii) *any other legislation relating to the governance and administration of the Scheme and any connected scheme^(a), and*
 - (iii) *any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and*
 - (b) *to ensure the effective and efficient governance and administration of the Scheme and any connected scheme.*
- (2) *Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.*
- (3) *Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State.*
- (4) *Approval under paragraphs (2) or (3) may be given subject to such conditions as the Secretary of State thinks fit.*
- (5) *The Secretary of State may withdraw an approval if any conditions under paragraph (4) are not met or if in the opinion of the Secretary of State it is no longer appropriate for the approval to continue.*

(a) See section 4(6) of the Public Service Pensions Act 2013 for the definition of connected scheme.

- (6) *Subject to paragraph (7), an administering authority may determine the procedures applicable to a local pension board, including as to the establishment of sub-committees, formation of joint committees and payment of expenses.*
- (7) *Except where a local pension board is a committee approved under paragraph (2), no member of a local pension board shall have a right to vote on any question unless that member is an employer representative or a member representative^(b).*
- (8) *A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.*
- (9) *The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.*

Local pension boards: membership

- 107.**—(1) *Subject to this regulation each administering authority shall determine—*
- (a) *the membership of the local pension board;*
 - (b) *the manner in which members of the local pension board may be appointed and removed;*
 - (c) *the terms of appointment of members of the local pension board.*
- (2) *An administering authority must appoint to the local pension board an equal number, which is no less than 4 in total, of employer representatives and member representatives and for these purposes the administering authority must be satisfied that—*
- (a) *a person to be appointed to the local pension board as an employer representative has the capacity to represent employers; and*
 - (b) *a person to be appointed to the local pension board as a member representative has the capacity to represent members.*
- (3) *Except where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board)—*
- (a) *no officer or elected member of an administering authority who is responsible for the discharge of any function under these Regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of the local pension board of that authority; and*
 - (b) *any elected member of the administering authority who is a member of the local pension board must be appointed as either an employer representative or a member representative.*
- (4) *Where a local pension board is a committee approved under regulation 106(2) (committee that is a Scheme manager is also local pension board) the administering authority must designate an equal number which is no less than 4 in total of the members of that committee as employer representatives and member representatives and for these purposes the administering authority must be satisfied that—*
- (a) *a person to be designated as an employer representative has the capacity to represent employers; and*

(b) *See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.*

- (b) a person to be designated as a member representative has the capacity to represent members.

Local pension boards: conflict of interest

- 108.**—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest^(a).
- (2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.
- (3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).
- (4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Source: *The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015*

(a) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

Annex D – Example of Competency Self-assessment Matrix

Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Learning needs analysis		Training requirements and plan	
Do I possess...?	Rate my skills	Training requirements	Training plan (sources and timing)
	1 – no knowledge 5 – highly skilled		
1 – Pensions legislation			
A general understanding of the pensions legislative framework in the UK.	1 2 3 4 5		
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	1 2 3 4 5		
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	1 2 3 4 5		
A regularly updated appreciation of the latest changes to the scheme rules.	1 2 3 4 5		
2 – Pensions governance			
Knowledge of the role of the administering authority in relation to the LGPS.	1 2 3 4 5		
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	1 2 3 4 5		

Learning needs analysis		Training requirements and plan	
Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	1 2 3 4 5		
A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.	1 2 3 4 5		
An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	1 2 3 4 5		
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.	1 2 3 4 5		
A detailed knowledge of the duties and responsibilities of pension board members.	1 2 3 4 5		
Knowledge of the stakeholders of the pension fund and the nature of their interests.	1 2 3 4 5		
Knowledge of consultation, communication and involvement options relevant to the stakeholders.	1 2 3 4 5		
Knowledge of how pension fund management risk is monitored and managed.	1 2 3 4 5		
An understanding of how conflicts of interest are identified and managed.	1 2 3 4 5		
An understanding of how breaches in law are reported.	1 2 3 4 5		

Learning needs analysis	Training requirements and plan	
Do I possess...?	Rate my skills	Training requirements and plan (sources and timing)
3 – Pensions administration		
An understanding of best practice in pensions administration eg performance and cost measures.	1 2 3 4 5	
Understanding of the required and adopted scheme policies and procedures relating to:	1 2 3 4 5	
<ul style="list-style-type: none"> ■ member data maintenance and record-keeping processes 		
<ul style="list-style-type: none"> ■ internal dispute resolution 		
<ul style="list-style-type: none"> ■ contributions collection 		
<ul style="list-style-type: none"> ■ scheme communication and materials. 		
Knowledge of how discretionary powers operate.	1 2 3 4 5	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	1 2 3 4 5	
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	1 2 3 4 5	

Learning needs analysis	Training requirements and plan
<p>Do I possess...?</p> <p>Rate my skills 1 – no knowledge 5 – highly skilled</p>	<p>Training requirements</p> <p>Training plan (sources and timing)</p>
<p>An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.</p>	
<p>4 – Pensions accounting and auditing standards</p>	
<p>An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.</p>	
<p>An understanding of the role of both internal and external audit in the governance and assurance process.</p>	
<p>An understanding of the role played by third party assurance providers.</p>	
<p>5 – Pensions services procurement and relationship management</p>	
<p>An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.</p>	

Learning needs analysis	Training requirements and plan
Do I possess...?	Training requirements and plan (sources and timing)
Rate my skills	Training requirements
<p>1 – no knowledge 5 – highly skilled</p> <p>1 2 3 4 5</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p>	
<p>1 2 3 4 5</p> <p>An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p>	
<p>1 2 3 4 5</p> <p>An understanding of how the pension fund monitors and manages the performance of their outsourced providers.</p>	
6 – Investment performance and risk management	
<p>1 2 3 4 5</p> <p>An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p>	
<p>1 2 3 4 5</p> <p>An awareness of the Myners principles of performance management and the approach adopted by the administering authority.</p>	
<p>1 2 3 4 5</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>	

Learning needs analysis	Training requirements and plan
Do I possess...?	Training plan (sources and timing)
Rate my skills	Training requirements
1 – no knowledge	
5 – highly skilled	
7 – Financial markets and products knowledge	
An understanding of the risk and return characteristics of the main asset classes (equities, bonds, property etc).	1 2 3 4 5
An understanding of the role of these asset classes in long-term pension fund investing.	1 2 3 4 5
An understanding of the primary importance of the fund's statement of investment principles and the investment strategy decision.	1 2 3 4 5
A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	1 2 3 4 5
An understanding of the limits placed by regulation on the investment activities of local government pension funds.	1 2 3 4 5
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.	1 2 3 4 5

Learning needs analysis	Training requirements and plan
<p>Do I possess...?</p> <p>Rate my skills</p> <p>1 – no knowledge</p> <p>5 – highly skilled</p>	<p>Training requirements</p> <p>Training plan (sources and timing)</p>
<p>8 – Actuarial methods, standards and practices</p>	
<p>A general understanding of the role of the fund actuary.</p>	<p>1 2 3 4 5</p>
<p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p>	<p>1 2 3 4 5</p>
<p>An awareness of the importance of monitoring early and ill health retirement strain costs.</p>	<p>1 2 3 4 5</p>
<p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p>	<p>1 2 3 4 5</p>
<p>A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.</p>	<p>1 2 3 4 5</p>
<p>A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.</p>	<p>1 2 3 4 5</p>



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CIPFA & Barnett Waddingham present their 2016/2017 LGPS Local Pension Boards & Officers information updates, training & networking seminar programmes

Following our successful Local Pension Boards One Year On event in June 2016, we are pleased to present our 2016/2017 seminar programmes.

Dates, times & locations are overleaf.

Local Pension Board Programme

Our Local Pension Board seminars are exclusively for Board members and will provide the latest information updates, training on specific topics and opportunities for discussion and networking with members of other Funds' Boards.

Our seminars are designed as an opportunity for members of Local Boards to share experiences, to receive updates, to enhance their knowledge, and to discuss the key issues facing them and the LGPS in a professional but informal environment. As well as presentations, there will be interactive sessions to facilitate discussion and networking as well as plenty of networking time during the refreshment breaks.

Our seminars include:

- An autumn and spring seminar, each repeated in various locations around the Country and held in the afternoon and/or evening. The cost of each seminar place is £125 plus VAT and is inclusive of refreshments.
- A full day Local Pension Boards Two Years On event in central London, including speakers from key players who will affect Board agendas in the year ahead. The cost of each seminar place is £175 plus VAT and is inclusive of refreshments.

Officers Programme

Our Officer autumn and spring seminars are exclusively for officers and will enable them to receive the same latest information updates as the Board members, and updates & training on specific topics and will provide opportunities for discussion and networking with officers from other Funds.

They will run in a similar way to the Board member sessions and be held in the morning. The cost of each seminar place is £125 plus VAT and is inclusive of refreshments.

Further details and booking

Full agendas will be provided prior to each event. For further information please contact: annemarie.allen@barnett-waddingham.co.uk or neil.sellstrom@cipfa.org

To book your place, go to <http://www.cipfa.org/training>, enter the course date in the To box, click Go and find your event below

We reserve the right to alter the programme where circumstances require.

Local Pension Board and Officer Seminar Programmes 2016/2017

Autumn Seminar – London, Cheltenham, Liverpool, Cardiff

Officers

21 October 2016 9:30am to 12:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

25 October 2016 9:30am to 12:30pm
Cheltenham St James House, St James Square,
GL50 3PR

26 October 2016 9:30am to 12:30pm
Liverpool Port of Liverpool Building, Pier Head,
L3 1BW

Local Pension Board Members

25 October 2016 1:30pm to 4:30pm
Cheltenham St James House, St James Square,
GL50 3PR

26 October 2016 1:30pm to 4:30pm
Liverpool Port of Liverpool Building, Pier Head,
L3 1BW

8 November 2016 1:30pm to 4:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

8 November 2016 - 5:30pm to 8:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

14 November 2016 - 9:30am to 12:30pm
Cardiff Committee Room 2, County Hall, Atlantic
Wharf, CF10 4UW

Spring Seminar – London, Leeds, Bromsgrove

Officers

27 February 2017 9:30am to 12:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

1 March 2017 9:30am to 12:30pm
Leeds Pinnacle, 67 Albion Street, LS1 5AA

2 March 2017 9:30am to 12:30pm
Bromsgrove Silver Springs House, 2 Topaz Way,
Birmingham Road, B61 0GD

Local Pension Board Members

27 February 2017 1:30pm to 4:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

27 February 2017 5:30pm to 8:30pm
London Cheapside House, 138 Cheapside, EC2V 6BW

1 March 2017 1:30pm to 4:30pm
Leeds Pinnacle, 67 Albion Street, LS1 5AA

2 March 2017 1:30pm to 4:30pm
Bromsgrove Silver Springs House, 2 Topaz Way,
Birmingham Road, B61 0GD

Local Pension Boards Two Years On, annual event for Pension Board Members

28 June 2017, 9:30am to 4pm
London Cheapside House, 138 Cheapside, EC2V 6BW

Booking

To book your place, go to <http://www.cipfa.org/training>, enter the course date in the To box, click Go and find your event below

REPORT FOR: PENSION BOARD

Date of Meeting: 2 November 2016

Subject: Information Report – Work Programme
2016-17

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary

This report invites the Board to comment on a suggested work programme up to the end of the 2016-17 financial year.

For Information

Section 2 – Report

1. At its meeting on 22 March 2016 the Board asked for a work programme to be suggested for its consideration. Below is a programme for the remainder of the financial year on which the Board's comments are invited.

22 November 2016 – Pension Fund Committee

All members of the Board are invited to attend the training session/discussion on the triennial valuation starting at 17.30 and the Committee at 18.30.

7 March 2017 – Pension Fund Committee

All members of the Board are invited to attend the training session starting at 17.30 and the Committee at 18.30.

Spring 2017 – Pension Board

- Results of triennial valuation
- Funding Strategy Statement
- Long term cashflow and funding
- Investment Strategy Statement
- Governance Compliance Statement
- Communications Policy Statement
- Latest Pension Fund Committee Meeting
- Pensions Administration – Performance monitoring
- Review of Internal Controls at fund managers
- Risk register
- External audit plan
- Training programme 2017-18
- Environmental, Social and Governance Issues

Financial Implications

2. There are no financial implications arising directly from this report.

Risk Management Implications

3. The Pension Fund has its own risk register which covers all risks which might arise from this report.

Equalities implications

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

Council Priorities

5. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Director of Finance

Date: 20 October 2016

Ward Councillors notified: Not applicable as the report is relevant to all wards.

Section 4 - Contact Details

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

Background Papers - None

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