Pension Fund Committee AGENDA

DATE: Tuesday 22 November 2016

TIME: 6.30 pm

VENUE: Committee Room 5, Harrow Civic Centre

MEMBERSHIP (Quorum 3 Councillors)

Chair: Councillor Nitin Parekh

Councillors:

Jo Dooley

Norman Stevenson
Bharat Thakker (VC)

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

Trade Union Observer(s): Mr J Royle - UNISON
Ms P Belgrave – GMB

Independent Advisers Mr C Robertson
Honorary Alderman R Romain

Reserve Members:

1. Adam Swersky
2. Antonio Weiss

1. Kanti Rabadia
2. Barry Macleod-Cullinane

Contact: Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881 **E-mail:** daksha.ghelani@harrow.gov.uk

Harrow COUNCIL LONDON

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

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

Reserve Members may attend meetings:-

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

2. DECLARATIONS OF INTEREST

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

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

3. MINUTES (Pages 7 - 16)

That the minutes of the meeting held on 6 September 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 (Part 4B of the Constitution).

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

[The deadline for receipt of public questions is 3.00 pm, 17 November 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 17 - 48)

Report of the Director of Finance.

8. INFORMATION REPORT - THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016 (Pages 49 - 62)

Report of the Director of Finance.

9. LONDON BOROUGH OF HARROW PENSION FUND: ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Pages 63 - 226)

Report of the Director of Finance.

10. INFORMATION REPORT - LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS UPDATE (Pages 227 - 230)

Report of the Director of Finance.

11. INFORMATION REPORT - STATEMENT OF INVESTMENT PRINCIPLES / INVESTMENT STRATEGY STATEMENT (Pages 231 - 244)

Report of the Director of Finance.

12. QUARTERLY TRIGGER MONITORING Q3 2016 (Pages 245 - 252)

Report of the Director of Finance.

13. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS (Pages 253 - 260)

Report of the Director of Finance.

14. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

15. EXCLUSION OF PRESS AND PUBLIC

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

Agenda Item No	Title	Description of Exempt Information
17.	Staff Transfer Arrangements	Information under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
18.	Information Report - Investment Manager Monitoring	Information under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
19.	Pension Death Grant Payment	Information under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

16. STAFF TRANSFER ARRANGEMENTS (Pages 261 - 266)

Report of the Director of Finance.

17. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 267 - 338)

Report of the Director of Finance.

18. PENSION DEATH GRANT PAYMENT (Pages 339 - 348)

Report of the Director of Finance.

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

*** DATA PROTECTION ACT NOTICE**

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

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

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PENSION FUND COMMITTEE
MINUTES

6 SEPTEMBER 2016

Chair:	* Councillor Nitin Parekh		
Councillors:	* Jo Dooley * Norman Stevenson	* Bharat Thakker	
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 currentl 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:

Item	Title	Reason
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 FUND COMMITTEE
Date of Meeting:	22 November 2016
Subject:	**Information Report** – Actuarial Valuation 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	London Borough of Harrow Pension Fund: 2016 valuation – Funding Strategy Review (Hymans Robertson)

Section 1 – Summary

This report invites the Committee to receive a presentation from the Actuary, Hymans Robertson LLP on progress on the triennial valuation to date and, in particular, on the funding strategy review.

For Information

Harrow COUNCIL LONDON

Section 2 – Report

1. At its meeting on 9 March 2016 the Committee asked that the Actuary, Hymans Robertson LLP, as currently led by the partner, Ms Gemma Sefton, should attend each of its meetings during 2016-17 to discuss the progress of the valuation.

2. Ms Sefton has been invited to make a presentation covering progress to date and, in particular, on the funding strategy review. She will make a presentation supported by the attached slides.

3. The Committee is invited to receive this presentation, comment as Members see fit and note this report.

Financial Implications

4. 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

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

Equalities implications

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

Council Priorities

7. 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:	11 November 2016		

Ward Councillors notified: **NO**

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 – Funding strategy review

- Gemma Sefton
- 22 November 2016

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority

HYMANS ROBERTSON

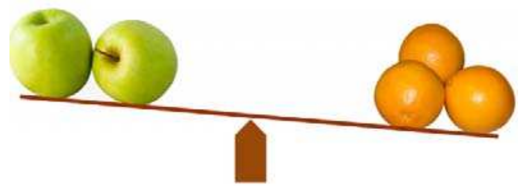
2016 valuation progress report

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	27 September 2016	
Submission of results to Scheme Advisory Board	30 September 2016	
Contribution strategies tested using ALM	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	

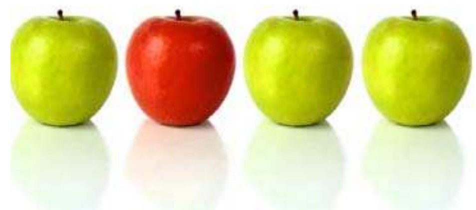
2

HYMANS ROBERTSON

What are we going to cover?



Setting contributions:
a risk based approach



Approaches for different employers

Next steps

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Setting contributions: A risk based approach

HYMANS ROBERTSON

Risk based approach

- The future is uncertain
- A single set of assumptions is ineffective
- Important to understand level of risk and how the funding position may evolve under a range of economic scenarios
- Increased number and diversity of employers so….
- One size fits all strategy is not appropriate
- Tailored strategies reduces risk and achieves better outcomes
- Increased scrutiny

How to set a funding plan

- Term
- No actives
- Maturity
- Size
- Security
- Guarantor
- Planning to exit
- Closed to new entrants
- Funding level
- Timing of returns

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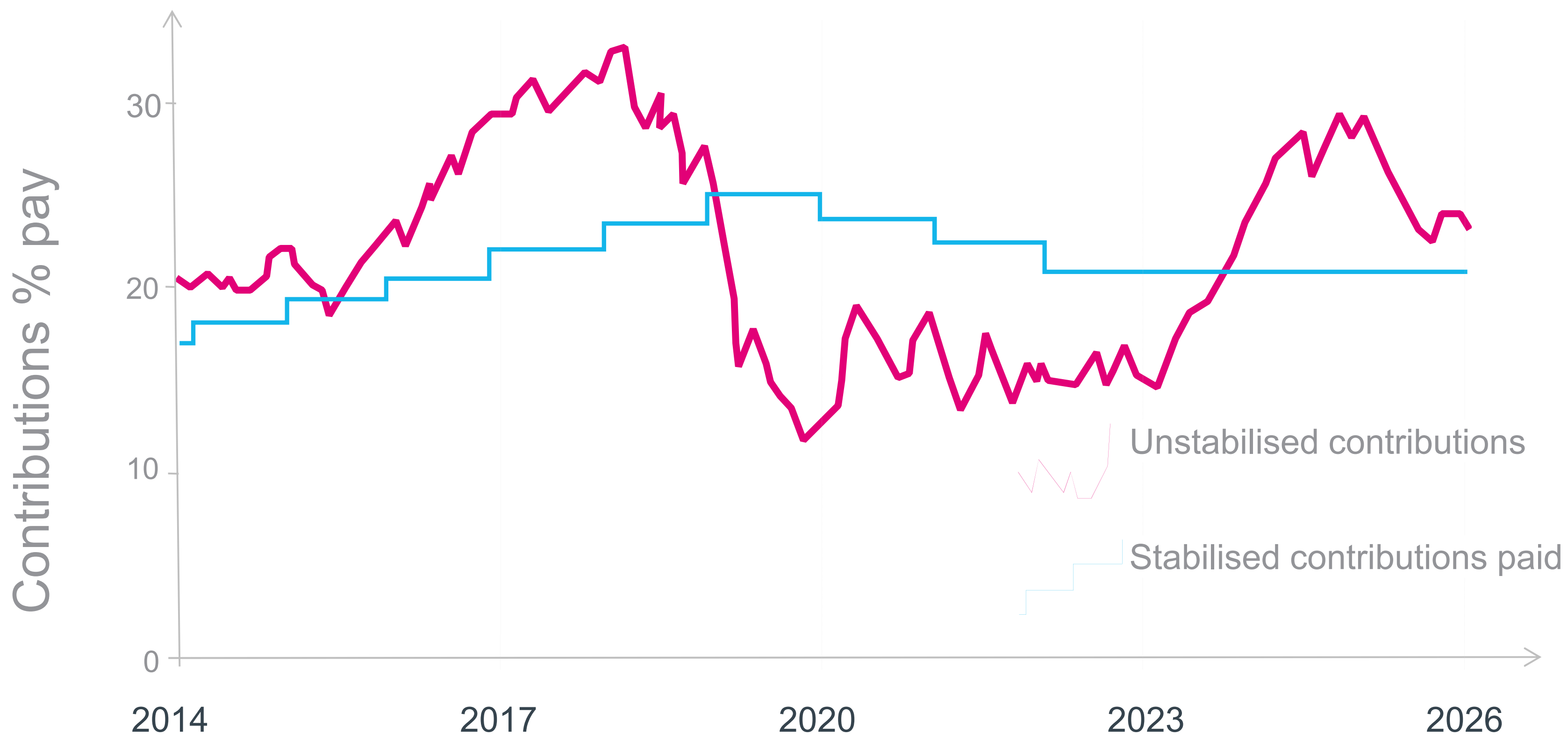
Stabilisation recap: Harrow Council



Providing some certainty when setting rates for long term secure employers

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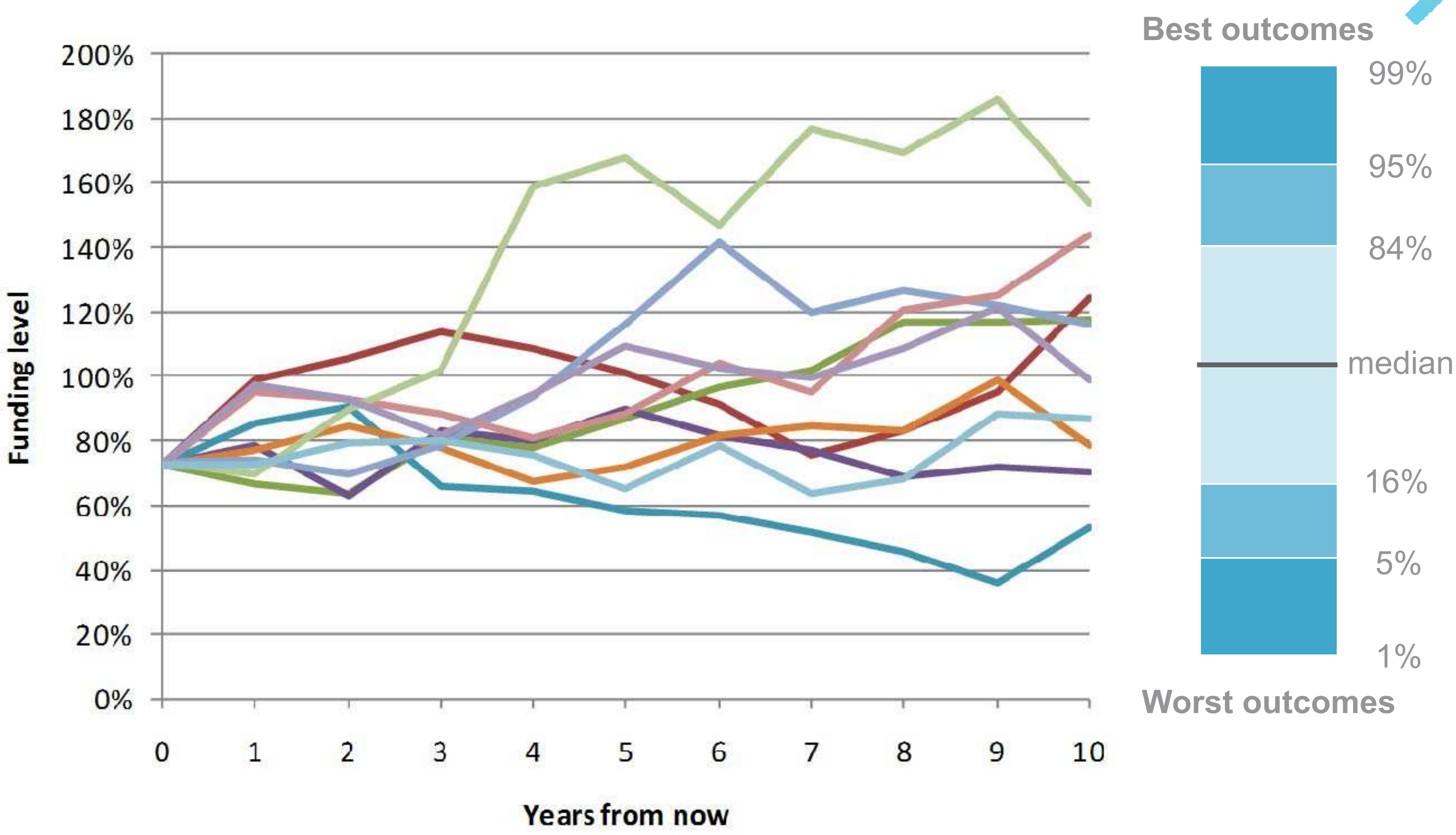
Setting contributions: Harrow Council



Assess the likelihood of different outcomes

8

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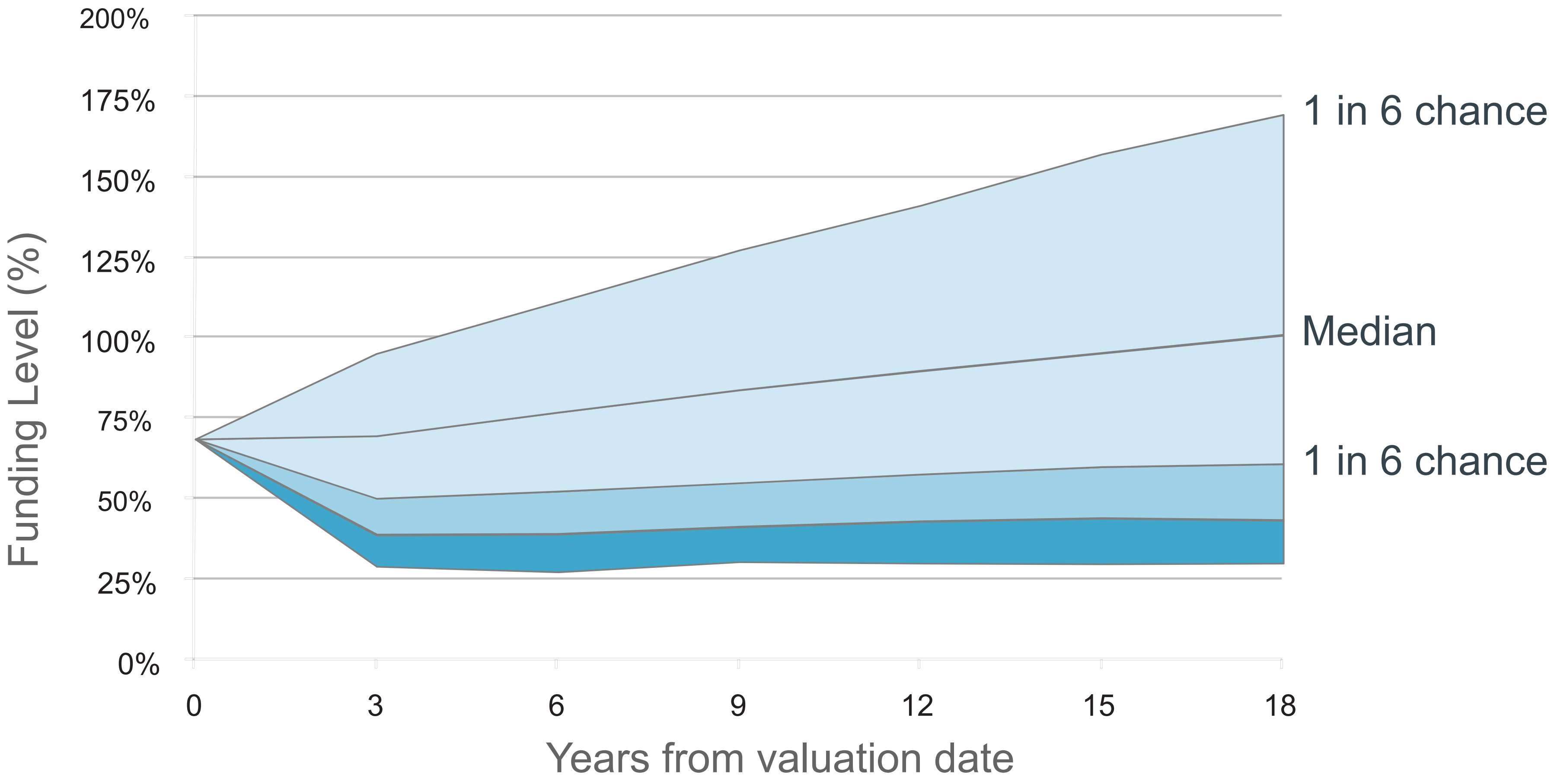
Setting contributions: Harrow Council



Need a good chance of meeting funding objective to be prudent

9

Source: Hymans Robertson LLP, comPASS, sample output

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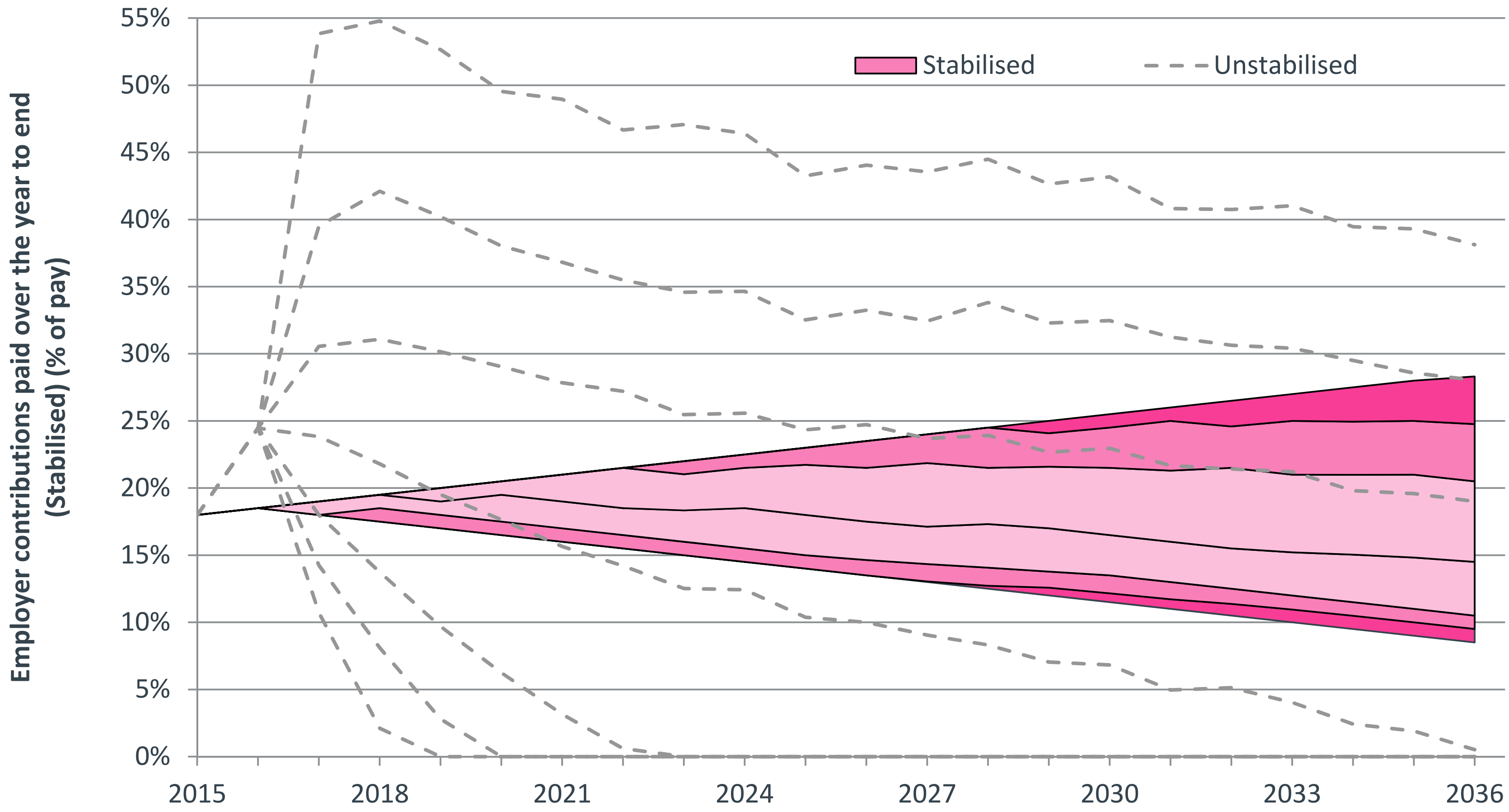
Contribution rate impact



Smaller range of potential future contribution rates

HYMANS ROBERTSON

Source: Hymans Robertson, comPASS, sample LGPS Fund

Employer rates: three step approach

Understand employers

What is their funding target?

How long do we want to give each employer to get to the target?

How much risk can each employer take to hit the target?

HYMANS ROBERTSON

Employer rates: three step approach

Understand employers

100% funding (ongoing or cessation assumptions)

How long do we want to give each employer to get to the target?

How much risk can each employer take to hit the target?

HYMANS ROBERTSON

Employer rates: three step approach

Understand employers

100% funding (ongoing or cessation assumptions)

Deficit recovery period

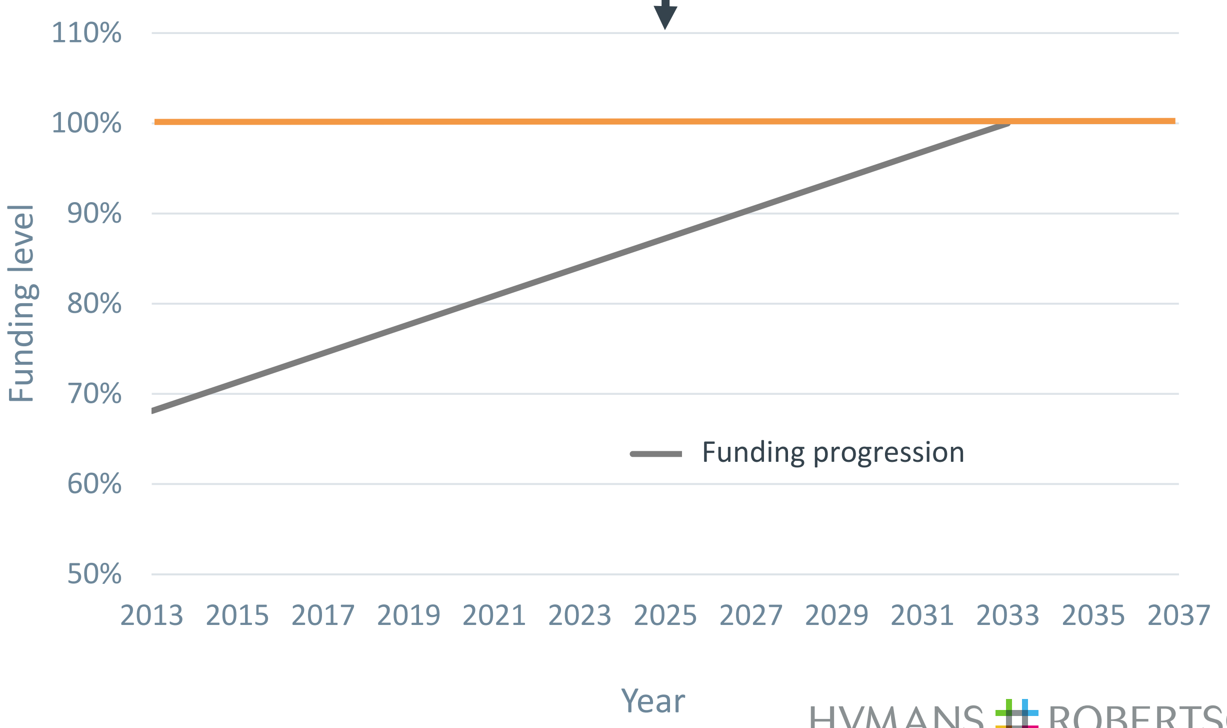
How much risk can each employer take to hit the target?

HYMANS ROBERTSON

Traditional approach to funding plans: certainty about the future

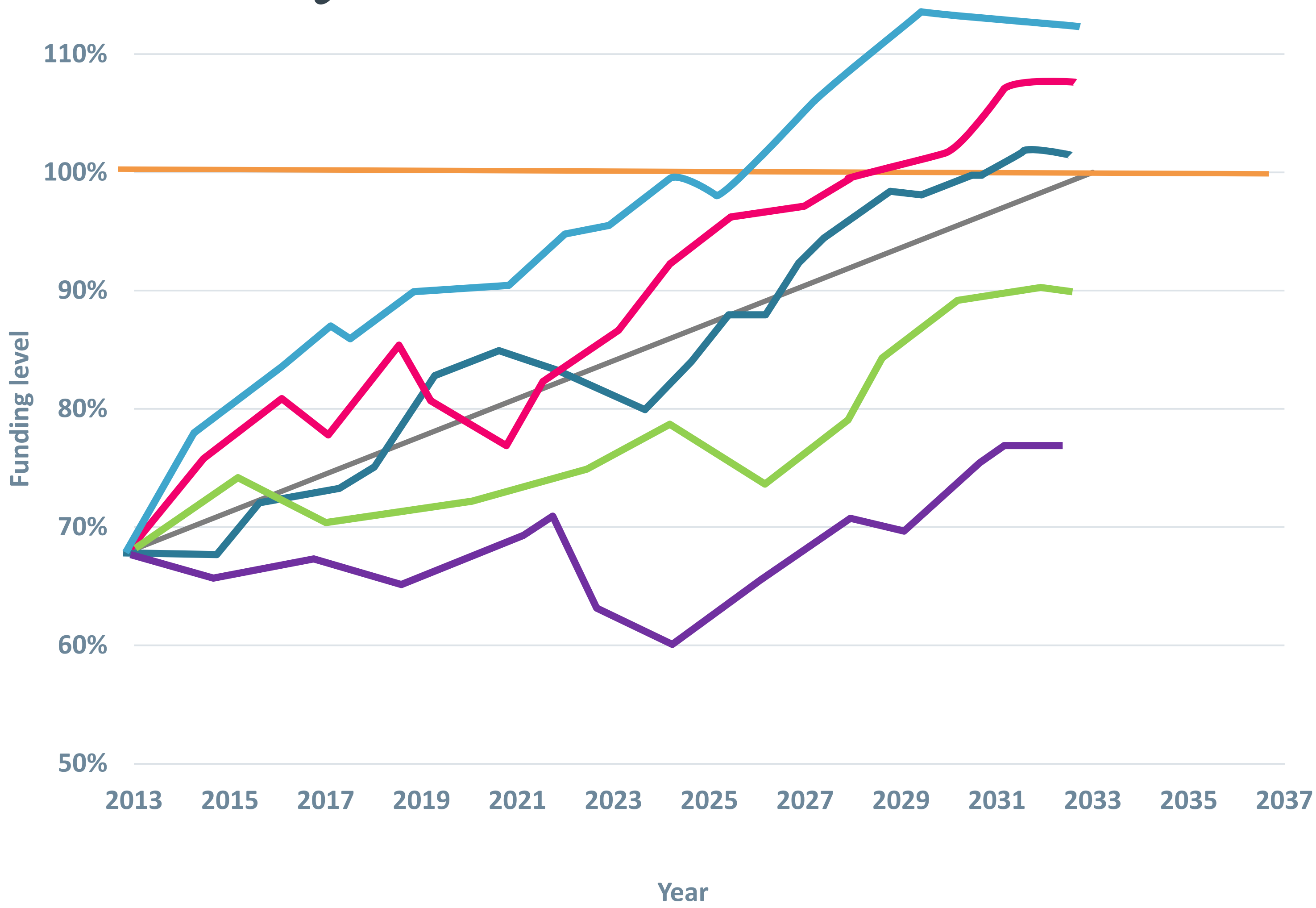
Actuary & Fund agree one set of assumptions

Actuary calculates contribution rates



HYMANS ROBERTSON

Risk based approach: recognise uncertainty



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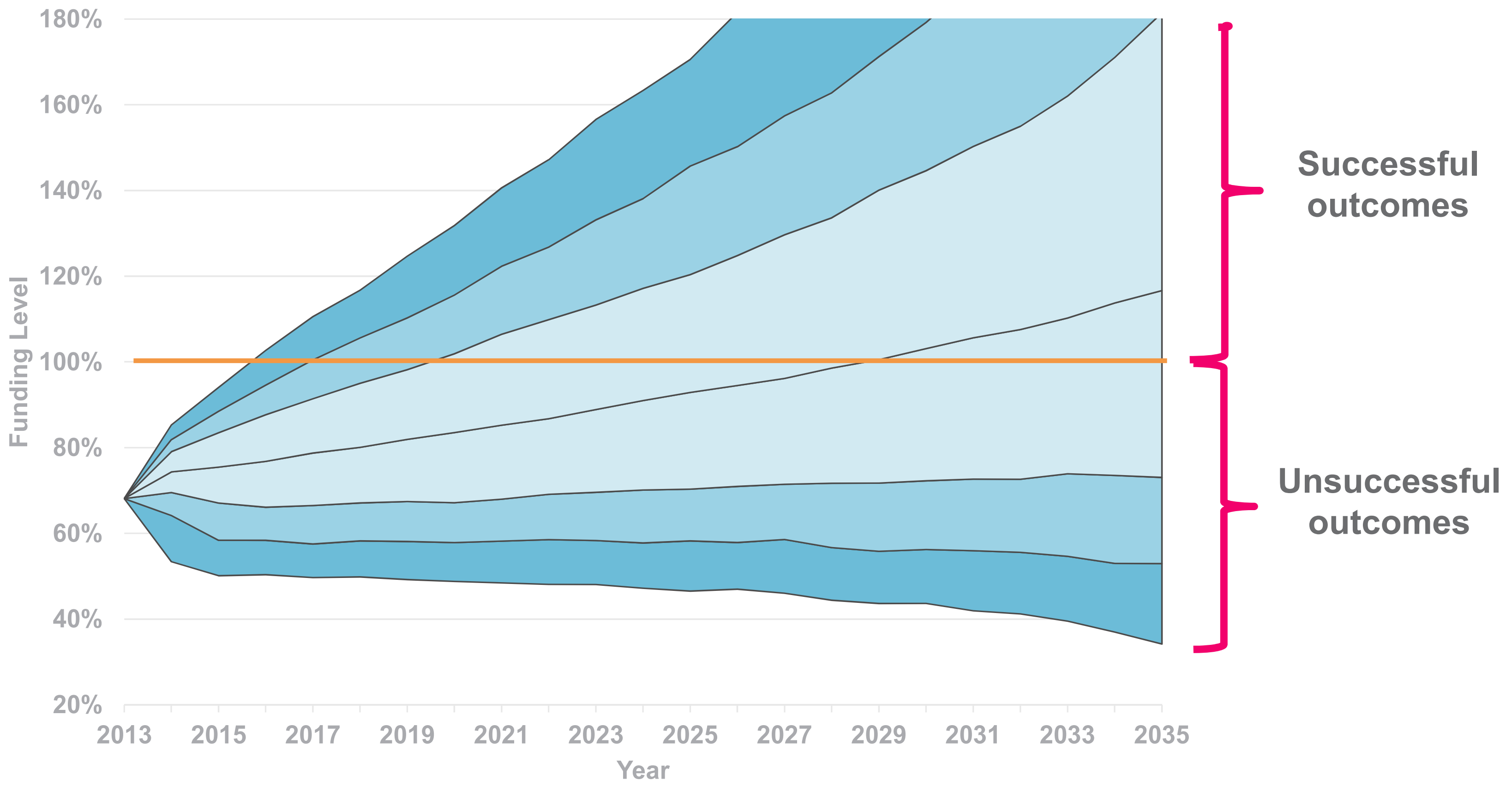
Setting employer contribution rates



Source: Hymans Robertson, sample fund

HYMANS ROBERTSON

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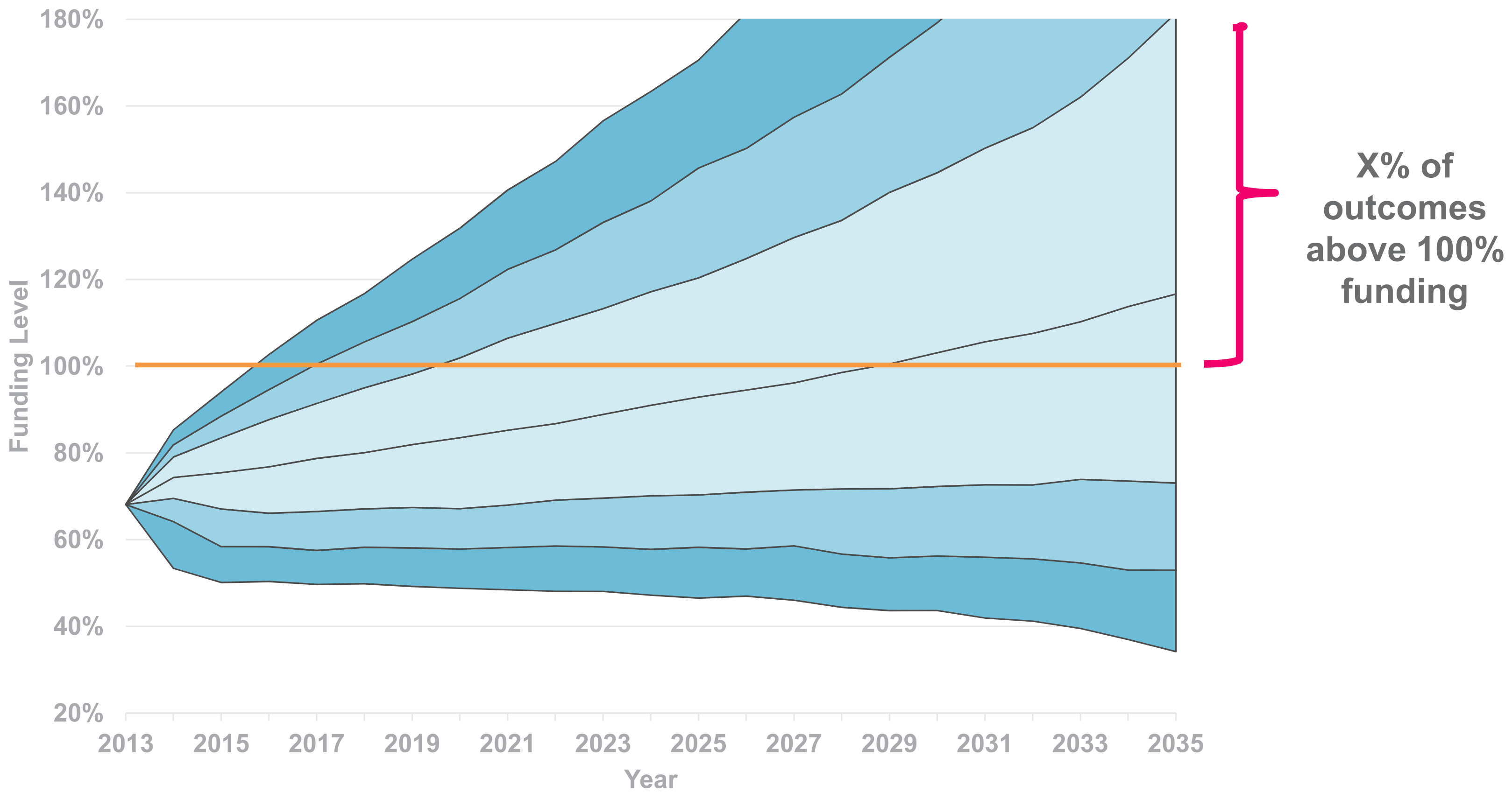
Setting employer contribution rates

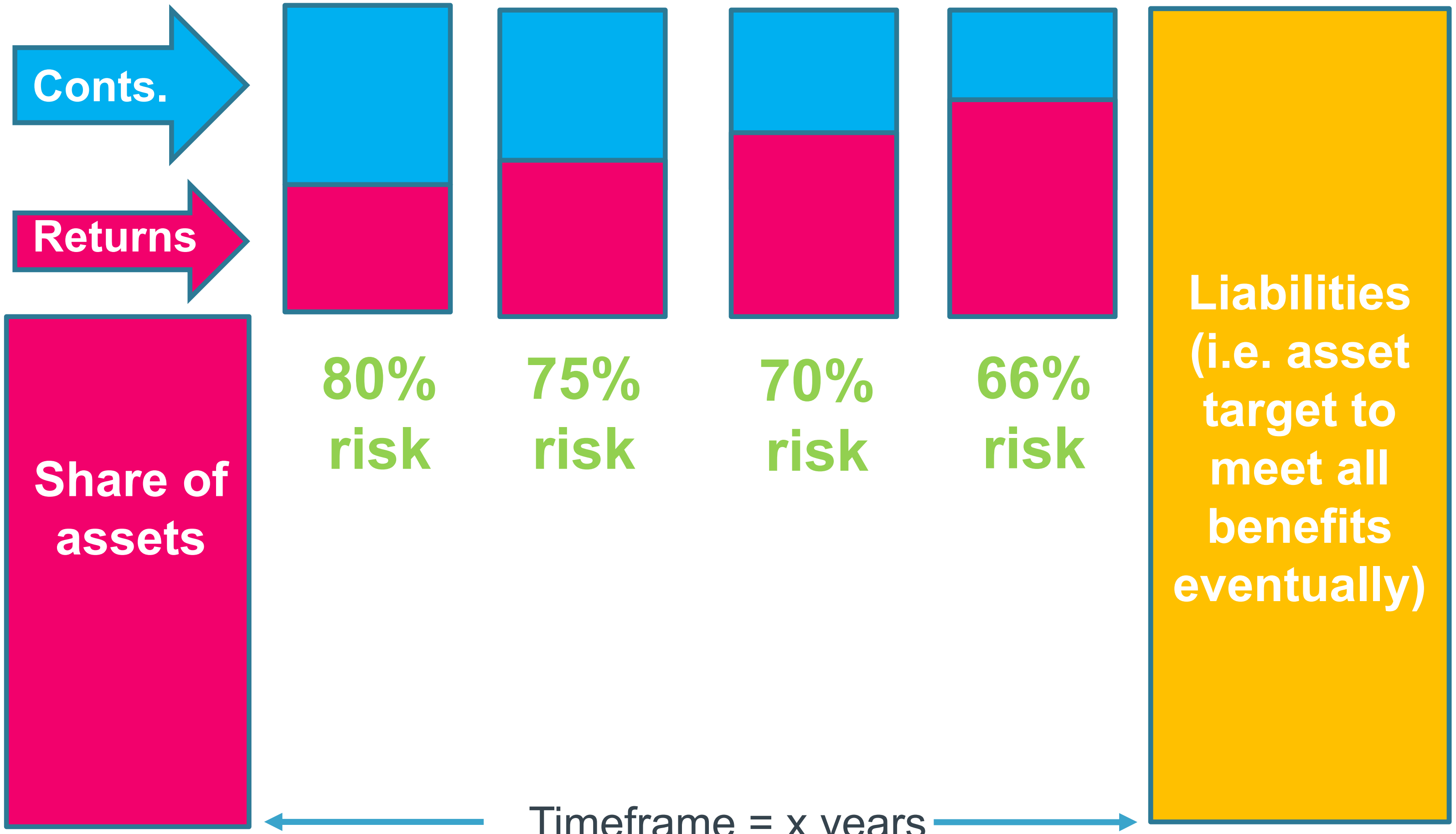


Choice of 'X' depends on each employer's risk to the Fund

HYMANS ROBERTSON

Source: Hymans Robertson, sample fund

Contributions vs risk



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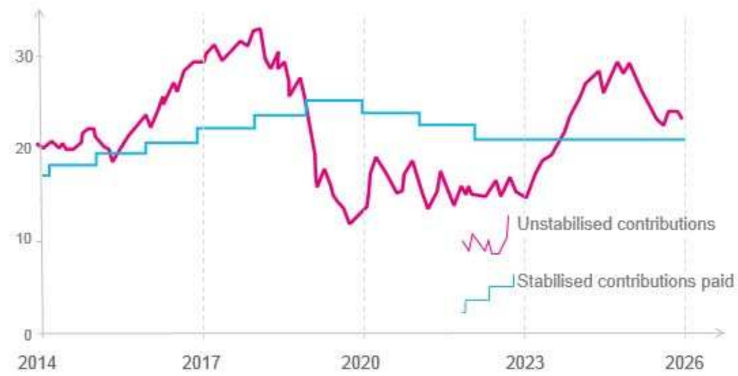
Different approaches for different employers

Council	Academies	Colleges	"TABs"	"CABs"
Ongoing	Ongoing	Ongoing	Ongoing	Cessation?
Long	Long	Long	Short	Short
Low	Low	Low/Medium	High	High
Stability mechanism	Stability mechanism option	Risk-based rate	Risk-based rate	Risk-based rate

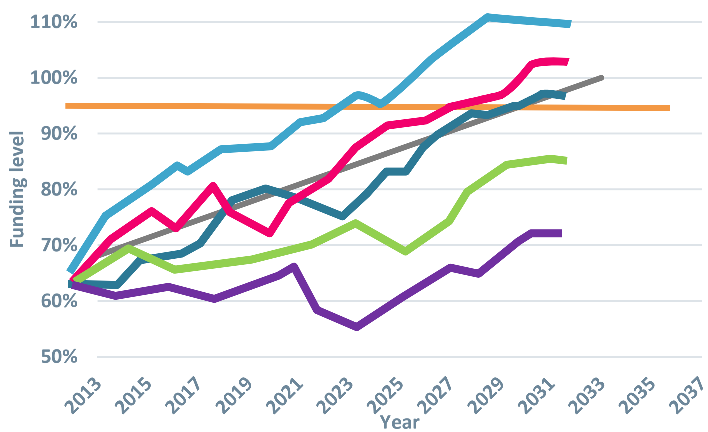
Funding strategy review

HYMANS ROBERTSON

Policy change 1: risk based rates for all



Contribution stability mechanism for long term, secure employers



Risk-based approach for all other employers

HYMANS ROBERTSON

Policy change 2: Colleges

- Currently pay ‘stabilised’ contribution rate of Harrow Council
- Proposed new insolvency regime means the LB Harrow Pension Fund is an unsecured creditor
- Colleges not as ‘secure’ as before?
- Proposed treatment: risk-based approach used for other employers in the fund

HYMANS ROBERTSON

Policy change 3: Academies

- Currently pay contribution rate based on market conditions at conversion date
- DfE want similar treatment with local authority schools
- DfE guarantee gives Fund security
- Proposed treatment: offer contribution stability mechanism used for Harrow Council

HYMANS ROBERTSON

Policy reminder: employers planning for exit

- Higher funding target?
- Less time to get there
- Higher likelihood of success required

Increasing security:

- Indemnity bond
- Charge on asset
- Third party guarantee

Open discussion with employers to reach suitable outcomes

HYMANS ROBERTSON

Next steps

HYMANS ROBERTSON

Next steps

- Agree contributions for Harrow Council following modelling results
- Consult with employers on Funding Strategy Statement (FSS)
- 7th March Committee – Valuation report and FSS sign employer results
- Finalise valuation report and contributions by 31 March 2017

HYMANS ROBERTSON

Thank you

HYMANS ROBERTSON

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.
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  - 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.

HYMANS ROBERTSON

REPORT FOR:	**Pension Fund Committee**
Date of Meeting:	22 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:	Appendix 1 – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Section 1 – Summary

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

FOR INFORMATION

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 9 March 2016 the Committee 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 were invited by 19 February 2016.

2. The 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 intervention 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 new 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:

<u>(1) Citation, commencement and extent</u>
This details the citation and scope of the regulations, and gives the date at which they will come into force.
<u>(2) Interpretation</u>
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.
<u>(3) Investment</u>
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.
<u>(4) Management of a pension fund</u>
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.
<u>(5) Restriction on power to borrow</u>
This regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.
<u>(6) Separate bank account</u>
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.
<u>(7) Investment strategy statement</u>
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 draft 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 considerable 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:	8 November 2016		

Ward Councillors notified:	NO

Section 4 - Contact Details

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

Background Papers - None

STATUTORY INSTRUMENTS

2016 No. 946

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

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

Made - - - -	*21st September 2016*
Laid before Parliament	*23rd September 2016*
Coming into force - -	*1st November 2016*

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

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(**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

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(**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 Fund Committee**

Date of Meeting:	22 November 2016
Subject:	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:	London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2016 Annual Audit Letter 2015/16 (KPMG)

Section 1 – Summary and Recommendation

Summary

This report seeks the agreement of the Committee to the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

Recommendation

The Committee are recommended to agree the Annual Report and Financial Statements for the year ended 31 March 2016.

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 21 June 2016 the Committee 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.

3. The Committee's consideration on 21 June was minuted as follows:

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.*

4. The matters arising from the specific queries raised by Members and Advisers were progressed as follows;

- Alderman Romain was correct in querying the Terms of Reference and they have been corrected
- An additional tool by which "Governance and Regulatory Risk" is managed has been included as follows:
  Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Adviser and officers
- During 2015-16 one officer left the Council with a severance package in excess of £100,000 but since this occurred on 31 March 2016 the costs will be included in the 2016-17 Accounts.
- Performance over three and five years is included in the Annual Report
- Distributions from Pantheon are received in cash and shown within Table 11 as investment income.

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 in its entirety 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 2 November 2016 the Pension Board expressed their concern over this matter which is covered in the report on their meeting elsewhere on the agenda.

8. Work has started on making improvements to achieve fuller compliance with the Regulations including:
    - Seeking to allocate all investment income direct to the Pension Fund account
    - Reviewing other not compliant income and expenditure to seek improvements
    - More timely transfer of contributions and other income into the Pension Fund account

9. The Committee will be advised of progress at their next meeting

10. The Committee are recommended to agree Annual Report and Financial Statements for the year ended 31 March 2016 as attached.

Financial Implications

11. 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

12. 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

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

Equalities implications

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

Council Priorities

15. 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 Date: 10 November 2016	✓	Director of Finance
Name: Alison Burns Date: 11 November 2016	✓	on behalf of the Monitoring Officer

Section 4 - Contact Details

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

Background Papers – None

London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2016

CONTENTS

Appendices

INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund (‘the Fund’) for the financial year to 31 March 2016. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 15 and in the Statement of the Consulting Actuary on page 45.

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

During 2015-16, most major asset classes, particularly UK equities, performed poorly with only overseas bonds and property realising significant growth. The Fund’s investments reflected this disappointing performance producing an investment return of -1.9%.

The net assets of the Fund as at 31 March 2016 were £661.0m compared to £674.8m as at 31 March 2015. Whilst the Fund was ranked in the 89th percentile in the local authority annual league table of investment returns for the year, over the latest three years’ it was ranked in the top third of funds.

D. Calvert

Dawn Calvert - CPFA
Director of Finance
28th September 2016

Independent auditor's report to the members of the London Borough of Harrow on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 18 to 44.

Respective responsibilities of the *Director of Finance* and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities the Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Harrow, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Harrow for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Sayers

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

28 September 2016

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Adam Swersky (Chairman) Councillor Bharat Thakker(Vice Chairman) Councillor Keith Ferry Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	John Royle - UNISON Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon Hewitt Limited
Investment Managers	Aviva Investors Global Services Limited BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Longview Partners Oldfield Partners Pantheon Ventures Record Currency Management Limited Standard Life Investments State Street Global Advisors Limited
AVC Providers	Clerical Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan
Auditor	KPMG LLP
Performance Measurement	State Street Global Services
Bankers	The Royal Bank of Scotland

SCHEME OVERVIEW

The Harrow Pension Fund ('the Fund') is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

The Scheme is governed by the Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Memberships

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

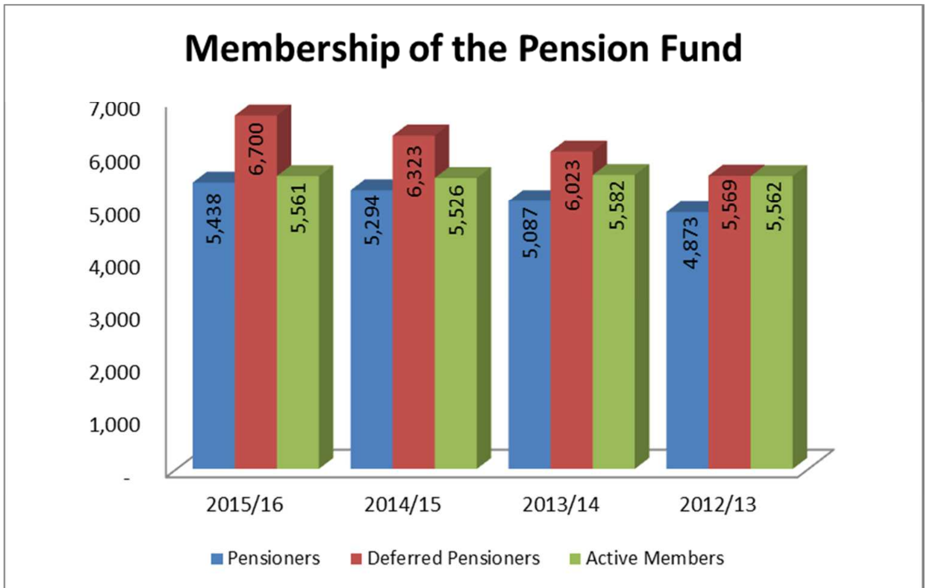
Organisations participating in the Fund are:

- **Scheduled Employer:** These are statutorily defined bodies listed within the LGPS Regulations and have a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

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

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

There are 30 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Actives	Deferred	Pensioners	Total	%
Harrow Council	Scheduled Body	4,086	5,660	5,087	14,833	83.80
Alexandra School	Scheduled Body	23	3	1	27	0.15
Avanti Free School	Scheduled Body	28	4	0	32	0.18
Aylward Primary School	Scheduled Body	77	6	0	83	0.47
Bentley Wood School	Scheduled Body	61	60	7	128	0.72
Canons High School	Scheduled Body	101	37	7	145	0.82
Harrow College	Scheduled Body	142	271	142	555	3.13
Harrow High School	Scheduled Body	63	45	6	114	0.64
Hatch End School	Scheduled Body	86	117	11	214	1.21
Heathland and Whitefriars	Scheduled Body	153	18	2	173	0.98
Krishna Avanti Primary	Scheduled Body	22	7	0	29	0.16
Nower Hill High School	Scheduled Body	124	99	7	230	1.30
Park High School	Scheduled Body	88	50	4	142	0.80
Pinner High Academy	Scheduled Body	1	0	0	1	0.01
Rooks Heath College	Scheduled Body	107	40	7	154	0.87
Salvatorian College	Scheduled Body	42	44	6	92	0.52
St Bernadettes	Scheduled Body	30	0	0	30	0.17
St Dominics College	Scheduled Body	53	27	33	113	0.64
Stanmore College	Scheduled Body	78	144	69	291	1.64
NLCS	Community Admission Body	77	34	28	139	0.79
Birkin	Transferee Admission Body	10	0	0	10	0.06
Carillion Services	Transferee Admission Body	55	19	18	92	0.52
Chartwells	Transferee Admission Body	16	2	1	19	0.11
Engie (Cofely)	Transferee Admission Body	2	0	0	2	0.01
Govindas	Transferee Admission Body	5	0	0	5	0.03
Granary Kids	Transferee Admission Body	1	1	1	3	0.02
Jubilee Academy	Transferee Admission Body	14	11	0	25	0.14
Linbrook	Transferee Admission Body	4	1	0	5	0.03
Sopria Steria	Transferee Admission Body	9	0	1	10	0.06
Taylor Shaw	Transferee Admission Body	3	0	0	3	0.02
	Total	5,561	6,700	5,438	17,699	100.00

c) Funding

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

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

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

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 15% to 28% of pensionable pay with most of the largest employers paying 20.85%.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in each year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 3.

GOVERNANCE ARRANGEMENTS

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee met five times during the year. It comprises four Councillors with full voting rights. Representatives from the trade unions are able to participate as observers of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers, a co-optee and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

The Local Pension Board assists the Council and the Pension Fund Committee in the administration of the Fund. In particular it oversees:

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

INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by State Street Global Services Performance Services, 2016)

All equity markets, with the exception of North America, produced negative returns over the year. In spite of a surprise outright majority being returned in May's general election, domestic equities lost ground in the early part of the period. After rebounding to some extent in the December quarter, they ended the period down 4%, reflecting the high exposure to oil majors and commodities, which continued to suffer as oil prices fell.

In sterling terms, North America was the strongest performing of the major overseas markets returning 3%. In contrast, the poorest performing areas were the emerging and lesser Asia Pacific markets which gave up between 7 and 8%. Elsewhere, Europe lost 3% and Japan 4%. Currency had a major influence on international equity returns with the weakness of Sterling insulating UK investors against much lower base currency returns.

After the double-digit returns of the previous year, bond performance was much more subdued with an aggregate return in low single figures. Yields fell at the outset of the year and by Christmas, returns were looking quite negative. Central Government comments and risk aversion generally in the closing quarter, however saw yields pick up. Long dated bonds produced the best of the returns whilst corporate issues were marginally down over the period. Index-Linked gilts returned 2% and overseas bonds 4%.

Alternative investments in aggregate enjoyed a good year, however fortune was mixed. Private equity returned 14%, whilst hedge fund performance was flat. Pooled multi-asset (diversified growth) investments had a disappointing year, returning -3%. Property continued its strong run, returning 11%.

Investment Policy

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

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

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

To support the Fund's objective of achieving a return that is sufficient to meet the cost of benefits within acceptable risk parameters the Committee, in conjunction with the Fund's investment advisor, set the strategic asset allocation on 6 March 2013.

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility.

Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

The following table compares the actual asset allocation as at 31 March 2016 to the agreed allocation

Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Fixed interest securities	11	10
Index-linked securities	3	3
Developed world equities-active	22	21
Emerging markets equities-active	11	10
Global equities-passive	33	31
Pooled property	8	10
Private equity	3	5
Diversified growth funds	8	10
Forward currency contracts	(1)	0
Cash	2	0
Total	**100**	**100**

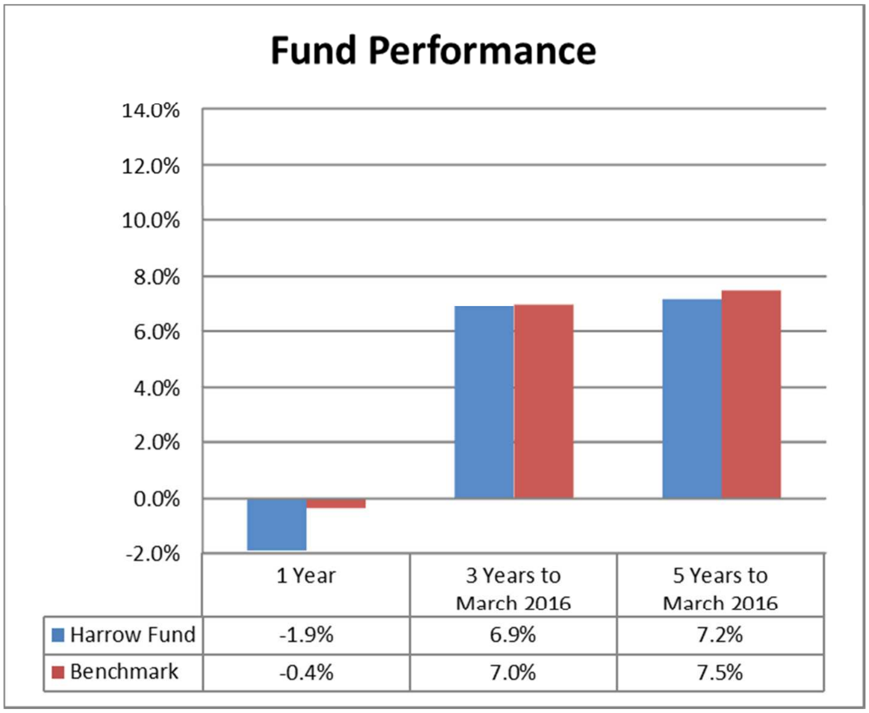
The Committee believes in appointing Fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Fund managers are set risk parameters to provide them with some flexibility in achieving the asset allocation to allow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

Investments held by Fund

Market value 31 March 2015	Percentage of Fund	Manager	Investment assets	Market value 31 March 2016	Percentage of Fund
£'000	%			£'000	%
69,247	10	BlackRock	Fixed interest securities	69,401	11
17,130	3	BlackRock	Index-linked securities	17,577	3
76,541	11	GMO	Emerging markets equities-active	71,463	11
75,561	11	Longview	Developed world equities-active	75,499	11
77,276	11	Oldfields	Developed world equities-active	70,701	11
220,601	33	State Street	Global equities-passive	219,424	33
0	0	London CIV	UK equities-passive	150	0
50,562	8	Aviva	Pooled property	53,481	8
22,954	3	Pantheon	Private equity	20,571	3
28,857	4	Insight	Diversified growth fund	27,071	4
30,678	5	Standard Life	Diversified growth fund	29,216	4
(2,649)	0	Record	Forward currency contracts	(6,388)	(1)
865	0	BlackRock	Cash with investment managers	44	0
272	0	JP Morgan	Cash with investment managers	0	0
5,793	1		Cash deposits	11,485	2
673,688	**100**		**Total**	**659,695**	**100**

Fund performance

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



Source: State Street Global Services

The Fund's return of -1.9% during 2015-16 was due to the relatively poor performance of equities generally and the UK in particular and the disappointing performance of some of the fund managers. Returns over the longer time periods were broadly in line with the expected performance benchmarks.

The average local authority fund (as measured by State Street Global Services Performance Services) returned 0.2% on its assets during the year. The Council's Fund was ranked in the 89th percentile (2014-15: 14th) in the local authority annual league table of investment returns for the year.

The under performance of 2.1% against the average local authority fund was due mainly to the performance of the diversified growth funds and stock selection by equity fund managers.

STATEMENTS AND PUBLICATIONS

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

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

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

Statement of Investment Principles
Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to publish a Statement of Investment Principles. This Statement provides details of the Fund's investment policies including:

• The types of investment to be held;
• The balance between different types of investment; and
• Risk measurement and management.

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

Funding Strategy Statement
Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

• How the costs of the benefits provided under the LGPS are met through the Fund;
• The objectives in setting employer contribution rates; and
• The funding strategy that is adopted to meet these objectives.

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

RISK MANAGEMENT

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

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

Governance and Regulatory Risk

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

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Adviser and officers;
- Regular reviews of the Statement of Investment Principles and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

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

Investment Risk

The Fund is invested in a range of asset classes as detailed in Note 12. This is done in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of a Statement of Investment Principles which sets out the Fund's approach to investment including the management of risk. The predominant asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

<u>Pricing Risk</u>
The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments decreased by 3% in 2015-16 compared to increasing by 14% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;

- Global equities are managed by three active and one passive manager and diversified growth funds by two managers to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

Liquidity Risk

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 11% of Harrow's Fund is in illiquid assets. This is deemed appropriate for a fund that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

Counterparty Risk

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

Actuarial Risk

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

Operational Risk

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

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

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

CONTACTS

Registered Address	London Borough of Harrow HR Operations - Pensions, 3rd Floor South Wing, Civic Centre, Harrow, HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8424 1186 Website: www.harrowpensionfund.org
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Telephone Number: 0300 123 1047 Website: www.pensionsadvisoryservice.org.uk
	The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW Telephone Number: 0345 6000707 Website: www.thepensionsregulator.gov.uk
	The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB Telephone Number: 0207 630 2200 Fax Number: 0207 821 0065 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service Tyneview Park Whitley Road Newcastle Upon Tyne NE98 1BA Telephone Number: 0800 122 3170 Website: www.gov.uk/find-lost-pension

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

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

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

- To approve the Financial Statements.

The Director of Finance's Responsibilities

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

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

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

- Kept proper accounting records which were up to date; and

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

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2016 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
28th September 2016

Harrow Pension Fund Account for the year ended 31 March 2016

2014/15 £'000		Notes	2015/16 £'000
	Dealings with members, employers and others directly involved in the fund		
(28,013)	Contributions receivable	6	(28,333)
(1,267)	Transfers in from other pension funds	7	(5,839)
(35)	Other income		(261)
(29,315)			**(34,433)**
32,008	Benefits payable	8	31,265
2,266	Payments to and on account of leavers	9	3,239
34,274			**34,504**
4,959	**Net additions/reductions from dealings with members**		**71**
3,958	Management expenses	10	4,630
	Return on investments		
(10,863)	Investment income	11	(10,425)
(82,082)	Profit/losses on disposal of investments and changes in the market value of investments	12A	19,568
(92,945)	Net return on investments		**9,143**
(84,028)	Net (increase)/decrease in the net assets available for benefits during the year		13,844
(590,817)	Net Assets at start of year		(674,845)
(674,845)	Net Assets at end of year		**(661,001)**

Net Assets Statement as at 31 March 2016

2014/15 £'000		Notes	2015/16 £'000
	Investment assets		
669,407	Investments	12	654,554
1,459	Derivative contracts	12	878
1,137	Cash with investment managers	12	44
672,003			**655,476**
5,793	Cash deposits	12	11,485
677,796			**666,961**
	Investment liabilities		
(4,108)	Derivative contracts	12	(7,266)
673,688			**659,695**
2,051	Current assets	17	2,069
(894)	Current liabilities	18	(763)
674,845	**Net assets of fund available to fund benefits at the period end**		**661,001**

The accounts summarise the transactions of the Fund and deal with the net assets. The Net Assets Statement does not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 45 and 46 and these Financial Statements should be read in conjunction with it.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
28th September 2016

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2016

NOTE 1: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position as at 31 March 2016. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 7 and 9).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis.

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

c) Investment income

i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination

ii) Distributions from pooled funds are recognised at the date of issue.

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

Fund account – Expense items

a) Benefits payable

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

b) Taxation

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

c) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs* (2014).

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management expenses

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

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

Where an investment manager's fee invoice has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2015/16.

Net Assets Statement

a) Financial assets

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

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

i) Market-quoted investments

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

ii) Fixed interest securities

Fixed interest securities are recorded at bid market price ruling on the final day of the accounting period.

iii) Unquoted investments

Investments in unquoted property pooled funds are valued at the net asset value as advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012.* The Fund's private equity investments are valued by the manager at 31 December 2015 and are adjusted to take into account distributions/contributions and exchange rate movements taking place up to 31 March 2016

iv) Pooled investment vehicles

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

b) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers and custodians.

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

d) Financial liabilities

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

e) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 16).

f) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with section 4 (2)(b) of The Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only (Note 19)

NOTE 3: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012.*The value of unquoted private equities at 31 March 2016 was £20.6m (31 March 2015 £23.0m).

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary. Annual updates in the intervening years use the methodology in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in notes 15 and 16. Valuations are subject to significant variances based on changes to the underlying assumptions.

NOTE 4: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.5% 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

Private equity	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2012* .These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £20.6m. There is a risk that this investment may be under or overstated in the accounts.

NOTE 5: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

The Fund is not aware of any such events.

NOTE 6: CONTRIBUTIONS RECEIVABLE

By category

2014/15		2015/16
£'000		£'000
(6,561)	Employees' contributions	(6,599)
	Employers' contributions:	
(16,580)	Normal contributions	(16,763)
(3,934)	Deficit recovery contributions	(4,549)
(938)	Pension strain contributions	(422)
(21,452)	**Total employers' contributions**	**(21,734)**
(28,013)		**(28,333)**

By authority

2014/15		2015/16
£'000		£'000
(21,243)	Administering Authority	(21,504)
(5,410)	Scheduled bodies	(5,667)
(504)	Community admission body	(519)
(856)	Transferee admission bodies	(643)
(28,013)		**(28,333)**

NOTE 7: TRANSFERS IN FROM OTHER PENSION FUNDS

2014/15		2015/16
£'000		£'000
0	Group transfers	(3,304)
(1,267)	Individual transfers	(2,535)
(1,267)		**(5,839)**

NOTE 8: BENEFITS PAYABLE

By category

2014/15		2015/16
£'000		£'000
25,188	Pensions	26,454
6,068	Commutation and lump sum retirement benefits	4,074
752	Lump sum death benefits	737
32,008		**31,265**

By authority

2014/15		2015/16
£'000		£'000
30,268	Administering Authority	29,070
1,398	Scheduled bodies	1,508
203	Community admission body	290
139	Transferee admission bodies	397
32,008		**31,265**

NOTE 9: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15		2015/16
£'000		£'000
44	Refunds to members leaving service	60
2,222	Individual transfers	3,179
2,266		**3,239**

NOTE 10: MANAGEMENT EXPENSES

2014/15		2015/16
£'000		£'000
823	Administrative costs	642
2,569	Investment management expenses	3,452
566	Oversight and governance costs	536
3,958		**4,630**

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

NOTE 11: INVESTMENT INCOME

2014/15		2015/16
£'000		£'000
(5,723)	Private equity net distributions	(6,030)
(1,940)	Pooled property investments	(1,708)
(3,200)	Pooled investments - units trusts and other managed funds	(2,687)
(10,863)		**(10,425)**

NOTE 12: INVESTMENTS

Market value 31 March 2015		Market value 31 March 2016
£'000		£'000
	Investment assets	
69,247	Fixed interest securities	69,401
17,130	Index-linked securities	17,577
449,979	Pooled equity investments	437,087
0	Equity in London CIV	150
50,562	Pooled property investments	53,481
22,954	Private equity	20,571
59,535	Alternative investments	56,287
1,459	Derivative contracts: forward currency	878
1,137	Cash with investment managers	44
5,793	Cash deposits	11,485
677,796	**Total investment assets**	**666,961**
	Investment liabilities	
(4,108)	Derivative contracts: forward currency	(7,266)
(4,108)	**Total investments liabilities**	**(7,266)**
673,688	**Net investment assets**	**659,695**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Fixed interest securities	69,247	3,130	(231)	(2,745)	**69,401**
Index-linked securities	17,130	1,032	(422)	(163)	**17,577**
Pooled equity investments	449,979	0	(1,742)	(11,150)	**437,087**
Pooled property investments	50,562	0	(474)	3,393	**53,481**
Equity in London CIV	0	150	0	0	**150**
Private equity	22,954	0	(564)	(1,819)	**20,571**
Alternative investments	59,535	0	(365)	(2,883)	**56,287**
Derivative contracts:net forward currency	(2,649)	3,867	(3,405)	(4,201)	**(6,388)**
Cash re Transition	268	0	(268)	0	**0**
	667,026	**8,179**	**(7,471)**	**(19,568)**	**648,166**
Cash with investment managers	**869**				**44**
Cash deposits	**5,793**				**11,485**
	6,662				**11,529**
Total investment assets	**673,688**			**(19,568)**	**659,695**

	Market value 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Fixed interest securities	57,567	3,302	(106)	8,484	**69,247**
Index-linked securities	14,468	683	(791)	2,770	**17,130**
Pooled equity investments	387,311	363,811	(359,049)	57,906	**449,979**
Pooled property investments	45,051	0	(433)	5,944	**50,562**
Private equity	24,648	731	(7,002)	4,577	**22,954**
Alternative investments	54,520	27,925	(28,374)	5,464	**59,535**
Derivative contracts:net forward currency	1,113	1,282	(1,713)	(3,331)	**(2,649)**
Cash re Transition	0	0	0	268	**268**
	584,678	**397,734**	**(397,468)**	**82,082**	**667,026**
Cash with investment managers	602				**869**
Cash deposits	4,271				**5,793**
	4,873				**6,662**
Total investment assets	**589,551**			**82,082**	**673,688**

NOTE 12B: ANALYSIS OF INVESTMENTS

31 March 2015 £'000			31 March 2016 £'000
	Pooled Investments		
	UK		
69,247	Fixed Interest Securities	Corporate	69,401
17,130	Index Linked Securities	Public Sector	17,577
50,562	Managed Funds - Property	Unit Trusts	53,481
	Global		
220,601	Managed Funds - Equities	Unitised Insurance Policy	219,424
229,378	Managed Funds - Equities	Other	217,663
449,979			**437,087**
30,678	Managed Funds - Alternatives	Unit Trusts	29,216
28,857	Managed Funds - Alternatives	Other	27,071
59,535			**56,287**
22,954	Managed Funds - Private Equity	Other	20,571
1,459	Derivatives		878
0	Equity in London CIV		150
1,137	Cash with investment managers		44
5,793	Cash Deposits		11,485
677,796	**Total Investment Assets**		**666,961**
	Investment Liabilities		
(4,108)	Derivatives		(7,266)
(4,108)	**Total Investment Liabilities**		**(7,266)**
673,688	**Net Investment Assets**		**659,695**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	GBP	2,360	AUD	(4,967)		(299)
Up to one month	GBP	3,136	CAD	(6,507)		(365)
Up to one month	GBP	4,143	CHF	(6,112)		(300)
Up to one month	GBP	5,100	EUR	(6,878)		(356)
Up to one month	HKD	40,399	GBP	(3,651)		(27)
Up to one month	GBP	3,493	HKD	(40,399)		(132)
Up to one month	GBP	12,164	JPY	(2,204,400)		(1,486)
Up to one month	GBP	26,631	USD	(40,405)		(1,484)
One to six months	GBP	2,634	AUD	(4,967)		(13)
One to six months	GBP	3,469	CAD	(6,507)		(31)
One to six months	GBP	4,416	CHF	(6,112)		(44)
One to six months	GBP	5,037	EUR	(6,878)		(432)
One to six months	GBP	9,885	JPY	(1,797,900)		(1,276)
One to six months	GBP	23,283	USD	(34,707)		(860)
Over six months	GBP	5,429	EUR	(6,878)		(55)
Over six months	GBP	11,137	JPY	(1,797,900)		(54)
Over six months	GBP	21,473	USD	(30,965)		(52)
Up to one month	AUD	4,967	GBP	(2,646)	13	
Up to one month	CAD	6,507	GBP	(3,470)	31	
Up to one month	CHF	6,112	GBP	(4,400)	43	
Up to one month	EUR	6,878	GBP	(5,402)	53	
Up to one month	JPY	2,204,400	GBP	(13,320)	330	
Up to one month	USD	40,405	GBP	(27,791)	325	
One to six months	USD	3,742	GBP	(2,546)	57	
One to six months	GBP	3,651	HKD	(40,399)	26	
Open forward currency contracts at 31 March 2016					**878**	**(7,266)**
Net forward currency contracts at 31 March 2016						**(6,388)**
Prior year comparative						
Open forward currency contracts at 31 March 2015					**1,459**	**(4,108)**
Net forward currency contracts at 31 March 2015						**(2,649)**

The following investments represent more than 5% of the net assets of the Fund

Market value 31 March 2015	% of total fund	Investment	Market value 31 March 2016	% of total fund
£'000			£'000	
220,601	33	SSGA MPF All World Equity Index Sub-Fund	219,424	33
75,561	11	Longview Partners - Global Pooled Equities FD K Class	75,499	11
76,541	11	GMO Emerging Domestic Opportunities Equity Fund	71,463	11
77,276	12	Overstone Global Equity CCF (USD Class A1 Units)	70,701	11
69,247	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	69,401	11
50,562	8	Aviva Investors UK Real Estate Fund of Funds	53,481	8
569,788	**85**	**Total over 5% holdings**	**559,969**	**85**

NOTE 12C: STOCK LENDING

Within the Statement of Investment Principles stock lending is permitted within pooled funds. At present, use of this facility is restricted to the State Street Global Advisors mandate.

The State Street lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors in a risk controlled manner.

The programme benefits from a counterparty default indemnity from State Street Bank & Trust Company pursuant to its Securities Lending Authorisation Agreement.

NOTE 13: FINANCIAL INSTRUMENTS

NOTE 13A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	31 March 2015				31 March 2016	
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
69,247	0	0	Fixed interest securities	69,401	0	0
17,130	0	0	Index-linked Securities	17,577	0	0
449,979	0	0	Pooled equity investments	437,087	0	0
0	0	0	Equity in London CIV	150	0	0
50,562	0	0	Pooled property investments	53,481	0	0
22,954	0	0	Private equity	20,571	0	0
59,535	0	0	Alternative investments	56,287	0	0
1,459	0	0	Derivative contracts	878	0	0
0	8,496	0	Cash	0	13,281	0
0	485	0	Debtors	0	317	0
670,866	**8,981**	**0**		**655,432**	**13,598**	**0**
			Financial liabilities			
(4,108)	0	0	Derivative contracts	(7,266)	0	0
0	0	0	Other investment balances	0	0	0
0	0	(894)	Creditors	0	0	(763)
(4,108)	**0**	**(894)**		**(7,266)**	**0**	**(763)**
666,758	**8,981**	**(894)**		**648,166**	**13,598**	**(763)**

NOTE 13B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2015		31 March 2016
£'000		£'000
	Financial assets	
85,145	Fair value through profit and loss	(15,367)
268	Loans and receivables	0
	Financial liabilities	
(3,331)	Fair value through profit and loss	(4,201)
0	Loans and receivables	0
82,082	**Total**	**(19,568)**

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

NOTE 13C: VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

Level 1

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

As far as they are available listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

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

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

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

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

The following tables provide an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	633,983	878	20,571	**655,432**
Loans and receivables	13,598	0	0	**13,598**
Total financial assets	**647,581**	**878**	**20,571**	**669,030**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(7,266)	0	**(7,266)**
Financial liabilities at amortised cost	(763)	0	0	**(763)**
Total financial liabilities	**(763)**	**(7,266)**	**0**	**(8,029)**
Net financial assets	**646,818**	**(6,388)**	**20,571**	**661,001**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	646,453	1,459	22,954	**670,866**
Loans and receivables	8,981	0	0	**8,981**
Total financial assets	**655,434**	**1,459**	**22,954**	**679,847**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,108)	0	**(4,108)**
Financial liabilities at amortised cost	0	0	(894)	**(894)**
Total financial liabilities	**0**	**(4,108)**	**(894)**	**(5,002)**
Net financial assets	**655,434**	**(2,649)**	**22,060**	**674,845**

NOTE 14: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on an annual basis.

a) Market risk

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

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

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

i) Other price risk

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

The Fund's investment managers mitigate this price risk through diversification.

ii) Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Council has determined that the following movements in market price risk are reasonably possible.

Assets type	Potential market movements (+/-)
Total equities	10.07%
Fixed interest & index linked securities	9.07%
Alternative investments	7.36%
Cash and equivalents	0.01%
Pooled property investments	2.37%

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	11,529	0.01	11,530	11,528
Investment portfolio assets:				
Total equities	457,808	10.07	503,909	411,707
Fixed interest & index linked securities	86,978	9.07	94,867	79,089
Alternative investments	56,287	7.36	60,430	52,144
Pooled property investments	53,481	2.37	54,748	52,214
Derivative contracts: net forward currency	(6,388)	0.00	(6,388)	(6,388)
Total	**659,695**		**719,096**	**600,294**

Asset type	Value as at 31 March 2015	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	6,930	0.01	6,931	6,929
Investment portfolio assets:				
Total equities	472,933	9.01	515,544	430,322
Fixed interest & index linked securities	86,377	8.49	93,710	79,044
Alternative investments	59,535	6.92	63,655	55,415
Pooled property investments	50,562	2.60	51,877	49,247
Derivative contracts: net forward currency	(2,649)	0.00	(2,649)	(2,649)
Total	**673,688**		**729,068**	**618,308**

b) Interest rate risk

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

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below.

Asset type	As at 31 March 2016	As at 31 March 2015
	£'000	£'000
Cash and cash equivalents	11,529	6,930
Fixed interest securities	69,401	69,247
Total	80,930	76,177

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits.

The impact of a 1% movement in interest rates would be as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	11,529	0	11,529	11,529
Fixed interest securities	69,401	694	70,095	68,707
Total change in assets available	**80,930**	**694**	**81,624**	**80,236**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2015	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	6,930	0	6,930	6,930
Fixed interest securities	69,247	692	69,939	68,555
Total change in assets available	**76,177**	**692**	**76,869**	**75,485**

This analysis demonstrates that changes in interest rates do not impact on the value of cash & cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities. However since the Fund's cash balances are low, the effect of interest changes is minimal.

c) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on its global equities pooled fund investments, some of which are denominated in currencies other than sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

The table below provides the estimated total of the Fund's currency exposure as at 31 March 2016.

Currency risk sensitivity analysis

Following analysis of historical data in consultation with the Fund's performance advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 3.77%

A 3.77% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2016	Change to net assets	
		+3.77%	-3.77%
	£'000	£'000	£'000
Overseas Equities	390,763	405,495	376,031

Currency Exposure - asset type	Asset Value as at 31 March 2015	Change to net assets	
		+3.62%	-3.62%
	£'000	£'000	£'000
Overseas Equities	398,206	412,621	383,791

d) Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2016 was £11.5m (31 March 2015: £6.9m). This was held with the following institutions.

Summary	Balances at 31 March 2016	Balances at 31 March 2015
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	10,048	4,633
JP Morgan	1,437	1,432
BlackRock	44	865
	11,529	**6,930**

e) Liquidity risk

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

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016 the value of illiquid assets was £74.1m, which represented 11% of the total Fund assets (31 March 2015: £73.5m, which represented 11% of the total Fund assets).

All financial liabilities at 31 March 2016 are due within one year.

f) Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 15: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation takes place as at 31 March 2016.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the Fund was assessed as 70.3% funded (73.5% at the March 2010 valuation). This corresponded to a deficit of £234m (2010 valuation: £157m) at that time.

For most employers within the Fund, contribution increases were phased in over the 3 years' period ending 31 March 2017.

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

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

Financial assumptions

	2013	2010
	%	%
Price inflation (CPI)	2.5	3.3
Salary increases	3.8	4.8
Pension increases	2.5	3.3
Gilt based discount rate	3.0	4.5
Funded basis discount rate	4.6	6.1

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed to be aged 45)	24.5 years	26.9 years

Commutation assumption

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

NOTE 16: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 15). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2015		31 March 2016
£m		£m
(959)	Present value of promised retirement benefits	(894)
602	Fair value of scheme assets	594
(357)	**Net Liability**	**(300)**

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

Assumptions used

	2015/16	2014/15
	% pa	% pa
Inflation/pensions increase rate assumption	2.2	2.4
Salary increase rate	3.7	3.8
Discount rate	3.5	3.2

NOTE 17: CURRENT ASSETS

31 March 2015 £'000		31 March 2016 £'000
	Debtors:	
381	Contributions due - employers	297
79	Transfer values receivable (joiners)	0
25	Sundry debtors	20
1,566	Cash owed to Fund	1,752
2,051		**2,069**

Analysis of debtors

31 March 2015 £'000		31 March 2016 £'000
1,645	Other local authorities	1,752
4	NHS bodies	4
381	Scheduled/Admitted bodies	297
21	Other entities and individuals	16
2,051		**2,069**

NOTE 18: CURRENT LIABILITIES

31 March 2015 £'000		31 March 2016 £'000
(355)	Sundry creditors	(167)
(212)	Transfer values payable (leavers)	(430)
(327)	Benefits payable	(166)
(894)		**(763)**

Analysis of creditors

31 March 2015 £'000		31 March 2016 £'000
(4)	Central government bodies	(15)
(212)	Other local authorities	(431)
(678)	Other entities and individuals	(317)
(894)		**(763)**

NOTE 19: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.31m were paid directly to the providers during the year (2014/15: £0.36m)

Market value 31 March 2015		Market value 31 March 2016
£'000		£'000
1,208	Prudential Assurance	1,233
812	Clerical Medical	741
266	Equitable Life Assurance Society	237
2,286		**2,211**

NOTE 20: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above.

The Pension Fund has operated a separate bank account since April 2011. However, due to the ease of administration and to avoid any undue cost to the Fund some transactions continue to be processed through the Council's bank account and as such these balances are settled on a monthly basis.

31 March 2015		31 March 2016
£'000		£'000
(16,162)	Employer's Pension Contributions to the Fund	(16,351)
1,061	Administration expenses paid to the Council	853
1,566	Cash held by the Council	1,752

Governance

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

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of The Accounts and Audit (England) Regulations 2011 and Regulation 7A of The Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Harrow Pension Fund.

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

NOTE 21: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2016 totalled £2.9m (31 March 2015: £4.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures in the private equity part of the portfolio.

NOTE 22: CONTINGENT ASSETS

Three admitted body employers in the Fund hold insurance bonds or guarantees to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund, which is in the remainder of this note.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits (£m)	Year ended 31 March 2016	Year ended 31 March 2015
Active members	496	502
Deferred pensioners	169	192
Pensioners	351	388
Total	**1,016**	**1,082**

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice. They are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £96m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2016 % p.a.	31 March 2015 % p.a.
Inflation/pensions increase rate	2.2%	2.4%
Salary increase rate	3.7%	3.8%
Discount rate	3.5%	3.2%

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Average future life expectancies at age 65 (years)	Males	Females
Current pensioners	22.1	24.4
Future pensioners*	24.5	26.9

* Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

Commutation assumption

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

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	10%	102
1 year increase in member life expectancy	3%	30
0.5% increase in salary increase rate	3%	30
0.5% increase in pensions increase rate	7%	70

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Gemma Sefton FFA
For and on behalf of Hymans Robertson LLP
9 May 2016

Governance Compliance Statement

London Borough of Harrow Pension Fund

April 2016

Introduction

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

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

London Borough of Harrow

HR Operations - Pensions

3rd Floor, South Wing

Civic Centre

Station Road

Harrow

HA1 2XF

TEL: 020 8901 2655

Fax: 0208 424 1196

Regulatory Framework

This compliance statement is required by the provision of Regulation 55 of the Local Government Pension Scheme (Scheme) Regulations 2013.

The provision requires Harrow Council as the Administering Authority to prepare a written statement setting out:

"… (a) whether the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

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

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

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

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying, and

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

This Statement will be revised and republished following any material change on any of the matters set out above. A current version of the Statement will always be available either through the pensions unit at the address on page three, on the intranet under – 'Employment with the Council' – 'Employees Pension' – 'Policy Statements' – 'Governance Compliance Statement'.

Delegated Functions

Harrow Council has delegated its functions to the following:

i) Pension Fund Committee

ii) Officer Sub – Group

iii) Divisional Director HRD and Shared Services

vi) Director of Finance

vii) Chief Officers

Pension Fund Committee

The Pension Fund Committee comprises four Members representing two different political parties with voting rights and a co-optee, an investment adviser and two independent advisers without voting rights. Council Senior Officers attend each meeting and Trade Union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Committee meets approximately four times a year and has the following responsibilities:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups

Within its Terms of Reference, the Committee carries out functions such as:

- provides a response to any draft LGPS amendment regulations or other discussion paper relating to the LGPS.
- In some instances, decides to whom a death grant is paid.
- considers policy matters in relation to the Pension Scheme and the Council's early retirement policy.
- at least once every three months, reviews the investments made by the fund managers and from time to time consider the desirability of continuing or terminating the appointment of the fund managers.
- receives actuarial valuations of the Fund.

Officer Sub – Group

The Officer Sub – Group comprises three officers representing Finance, Legal and HR. Other senior officers attend each meeting.

The Sub-Group meets on an ad-hoc basis and has the following responsibility:

- To determine all early retirement applications in line with Council policy

Divisional Director HRD and Shared Services

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

- To determine early retirement applications where there is no cost to the Pension Fund.

Director of Finance

Pension Fund Investment

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

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.

- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.

- To enter into under-writing agreements.

- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended to ensure the need for diversification and stability of investments

Chief Officers

Chief Officers are specifically authorised to take decisions on behalf of the Council or its non-Executive Committees in cases of urgency, using the procedure for non-executive decisions on minor matters or the procedure for urgent non-executive decisions.

Urgent Non-Executive Decisions and Minor Matters

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the two main political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Chief Executive who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

Safeguards

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

Local Pension Board

As required under the Public Service Pensions Act 2013 the Council has set up a Local Pension Board. Its responsibility under the Act is to assist the Administering Authority in ensuring the effective and efficient governance and administration of the Scheme including:

- Securing compliance with the Scheme 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.

In particular the Board oversees:

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

Statement of compliance to guidance

Regulation 55(1)(c) requires Scheme administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement to give, in their governance compliance statement, the reasons for not complying.

<u>Principle A – Structure</u>

a) **The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**

b) **That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.**

c) **That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.**

d) **That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.**

	Not Compliant*				**Fully Compliant**
a)					√
b)			√		
c)					**NA**
d)					**NA**

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

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

<u>Principle B – Representation</u>

a) **That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-**

i) employing authorities (including non-Scheme employers, eg, admitted bodies);
ii) Scheme members (including deferred and pensioner Scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

b) **That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.**

	Not Compliant*				Fully Compliant
a)				√	
b)					√

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

<u>Principle C – Selection and role of lay members</u>

a) **That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.**

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*				Fully Compliant
a)					√
b)					√

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

<u>Principle D – Voting</u>

a) **The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.**

	Not Compliant*				Fully Compliant
a)					√

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

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

a) **That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.**

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Not Compliant*				Fully Compliant
a)				√	
b)				√	
c)			√		

* Please use this space to explain the reason for non-compliance . **No formal documentation exists on the policy for training, facility time and expenses.** **No formal training log exists.**

<u>Principle F – Meetings (frequency/quorum)</u>

a) **That an administering authority's main committee or committees meet at least quarterly.**

b) **That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.**

c) **That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented**

	Not Compliant*				Fully Compliant
a)					√
b)					**NA**
c)				√	

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

<u>Principle G – Access</u>

a) **That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.**

	Not Compliant*				Fully Compliant
a)					√

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

Principle H – Scope

a) **That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements**

	Not Compliant*				Fully Compliant
a)					√

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

Principle I – Publicity

a) **That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements.**

	Not Compliant*				Fully Compliant
a)					√

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

Please use this space if you wish to add anything to explain or expand on the ratings given above **The statement is published in various formats to LGPS employers, all types of Scheme membership (i.e. actives/pensioners/deferreds), unions and non – LGPS employers.**

APPENDIX 2

Communications Policy Statement

London Borough of Harrow Pension Fund

April 2015

Contents

Introduction

This is the Communications Policy Statement of the Harrow Council Pension Fund, administered by Harrow Council, the Administering Authority.

The Fund liaises with a number of employers, namely:-

- **Alexandra Academy**
- **Avanti House Free School**
- **Aylward Academy**
- **Bentley Wood Academy**
- **Birkin**
- **Canons High Academy**
- **Capita Business Services**
- **Carillion Services**
- **Chartwells**
- **Govindas**
- **Granary Kids**
- **Harrow Academy**
- **Harrow College**
- **Hatch End Academy**
- **Heathland and Whitefriars Academy**
- **Jubilee Academy**
- **Julius Rutherford**
- **Krishna Avanti Academy**
- **Linbrooks**
- **North London Collegiate School**
- **Nower Hill Academy**
- **Park Academy**
- **Rooks Heath Academy**
- **Salvatorian College**
- **St. Dominic's VI Form College**
- **Stanmore College**
- **Taylor Shaw**
- **Temco**

and approximately 17,143 scheme members (5,526 active members, 6,323 deferred members and 5,294 pensioner members) in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 April 2015.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Linda D'Souza

Head of HR Operations
Harrow Council
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

TEL: 020 8424 1186
Fax: 0208 424 1196
email: linda.d'souza@harrow.gov.uk

Regulatory Framework

This policy statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provision requires Harrow Council as the Administering Authority to:

"*….prepare, maintain and publish a written statement setting out its policy concerning communications with:*

(a) members.

(b) representatives of members.

(c) prospective members and

(d) Scheme employers."

In addition it specifies that the statement must include information relating to:

"(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers."

As a provider of an occupational pension scheme, Harrow Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2014. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document.

Responsibilities and Resources

The legal duty for the proper administration of the Harrow Council Pension Fund lies with Harrow Council. Communication material is raised through the Pensions Team and validated through the Harrow Communications Unit. The Team write all communications including information published on the Internet/Intranet. The team is also responsible for arranging all forums, pension surgeries, workshops and meetings covered within this statement. The Team report through the recognised organisational unit hierarchical structure, ultimate responsibility for ensuring compliance lies with the Divisional Director of HR and OD.

Printing documentation is carried out internally.

Communication with key audience groups

Our audience

The Pensions Team communicates with a number of stakeholders on an on-going basis. For the purpose of this communication policy statement, the team are considering engagement with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- debit / credit members;
- prospective members;
- scheme employers and admission bodies;
- union representatives;
- Elected Members;
- chief officers
- pensions administration staff

In addition there are a number of other stakeholders with whom Harrow Council communicate on a regular basis, such as Her Majesty's Revenue and Customs, Communities & Local Government, Department of Works and Pensions, Pensions Advisory Service, Solicitors, actuaries and other pension providers. Harrow Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

How we communicate

General communication

Harrow Council has set in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. Pension information, for the most part, is delivered through paper based communications. Harrow has put in place alternative communication mediums (e.g. documents in Braille, large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally Harrow utilises Internet/Intranet mediums and is currently investigating, in consultation with Harrow's Audit unit, both email and internet self-service as mediums that will facilitate a gradual move away from paper communications and reduce communication costs.

Within the pension team, staff are responsible for all administration of the Local Government Pension Scheme. Any member of staff within the team can deal with general telephone calls, written correspondence or visitors. Communications of more complicated pension issues are managed amongst the Pensions senior management.

Telephony feed is either through a dedicated direct dial number or alternatively directly to the main Harrow Council switchboard and then onward transfer to one of the pension teams' extensions.

Branding

As the Pension Fund is administered by Harrow Council, all literature and communications will conform to the Council's branding policy.

Accessibility

Harrow Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request. All publications include details of how a request for alternative communication format is requested.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

Key communication objectives will, over and above individual communications with members (e.g. notification of scheme benefits, response to an individual enquiries, etc), be managed as detailed below:

- for the LGPS to be used as a tool in the recruitment and retention of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that all stakeholders, whether they be active members, pensioners or Elected Members have sufficient material to hand to inform pension-related judgements.

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group (Active, Deferred, Pensioner or All)***
Scheme Guide	Paper based and through Harrow's Internet/Intranet	At joining and major scheme changes	Post to home address/via scheme employers & online	Active
Newsletters	Paper based and through Harrow's Internet/Intranet	Annually and ad hoc to reflect timely notification of major scheme changes	Post to home address & online	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and through Harrow's Internet/Intranet	Annually	Hard copy on request & online	All
Pension Fund Accounts –	Paper based and through Harrow's	Annually	Post to home	Separately for active and

Summary	Internet/Intranet		address.& online	deferred
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred
Factsheets	Paper based and through Harrow's Internet/Intranet	Topic specific information sheets .	Post to home address & online	Active and deferred
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All
Pension Surgeries	Face to face	On request	On request	Active
One to one education sessions	Personal interview	On request	On request	All
Question and Answer sessions	Paper based, Harrow Intranet & seminars	Quarterly	Various	Active

Explanation of communications

Scheme Guide - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as European / British pension matters, payroll pay dates/deadlines, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Annual Benefit Statements – For active members these include the current value of benefits to 31 March as well as the projected benefits at Normal Pension Age. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. The annual benefit statement is a combined publication and includes the members' state benefits as advised through the Department for Works and Pensions.

For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Fact sheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, death benefits and pension rights on divorce etc.

Harrow Intranet – The Intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Harrow website – The website also provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Pension Surgeries – Pension surgeries provide the opportunity for groups of staff (i.e. 6 or more) to arrange a personal visit, at their place of work, from a member of the team.

One to one education sessions – These sessions offer the individual a confidential interview with a member of the team.

Policy on promotion of the scheme to Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- for the LGPS to be used as a tool in the recruitment of employees, and therefore assisting in both Harrow Council and associated bodies becoming employers of choice.
- to better educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- In line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Pensions Office does not have immediate access to prospective members, however, the benefits of a defined benefit scheme is referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Overview of the LGPS - Guide	Paper based, and Internet	On commencing employment	Via employers	New employees
Promotional Brochure	Paper based	Annually	Via employers	Existing/New employees
Membership Specific Reminder	Electronic	Annually	Harrow communications	Current Non LGPS Harrow Council employees

Explanation of communications

Overview of the LGPS – Guide - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Harrow's Internet pages.

Promotional Brochure – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Membership Specific Reminder – Through a combination of individual letter and promotional brochure provide current Harrow Council employees, who have not joined the LGPS, with sufficient information to revisit their earlier decision.

Policy on communication with Employing Bodies

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- Given the increased costings associated with funding a defined benefit scheme, provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide a database infrastructure that will assist in maintaining an accurate database.
- To provide literature and processes around starters, changes during employment, leavers, retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure they understand the benefits of being an LGPS employer.
- to assist the employing body in the development of their discretionary policy.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of issue***	***Method of Distribution***	***Audience Group***
Employers' Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and via data storage medium	Main contact for all employers
Newsletters	Paper based	Annually	Post & email	Main contact for all employers
Employers meeting	Meeting with key employing body personnel	Triennially	Meeting	Employing body management
Harrow Pension Fund Report and Accounts	Paper based	Annually	Post	Employing body
IAS19 report	Paper based and electronic file format.	Annually	Hard copy post and data storage medium.	Employing Body.
Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at contract renewal.	Hard copy post and data storage medium	Admitted Body

Explanation of communications

Employers' Guide - A detailed communication that provides guidance on the employer's duties responsibilities. Assists employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).

Newsletters – A technical briefing document that will include recent changes to the scheme, the impact on Pension Section administration and other relevant information.

Employer's Meeting – A formal seminar style event where the Harrow Pension team provide an update and the employing body get to question all aspects of the support arrangements.

Harrow Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

IAS19 Report – This is a national accounting standard that all authorities administering pension funds must follow. IAS19 requires an organisation to account for retirement benefits when it is committed to give them, even if the actual giving will be many years to come.

Service Level Agreement – Document that sets out, alongside the admission agreement, the duties and responsibilities of both parties for the duration of the service contract.

Policy on communication with Union Representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to union members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme and to ensure that Union representatives have full vision and opportunity to respond on all CLG and HMRC consultations
- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members
- to liaise with unions and provide every assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives will be met by providing the following communications:

Method of communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Briefing papers	Paper based and electronic	As and when there are scheme changes	Email or hard copy	All union members of the LGPS
Education sessions	Paper based and electronic	On request or following suggestion of Harrow's Pensions Team	Various	Union representatives
Pension Fund Committee meetings	Reports & Meeting	In line with published Committee meeting cycle	Notification through Committee Services	Named union representatives

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Education sessions – these are education sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies]

Pension Fund Committee meetings – a formal meeting of Elected Members, attended by Council Senior Officers, Investment Managers, invited Pension specialists and union members.

Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members:

- to ensure that Elected Members receive sufficient briefings/training to allow them to carry out their statutory duties and responsibilities in line with HMRC and LGPS legislation.
- to seek Elected Member approval to the development or amendment of discretionary policies,
- to seek Elected Members approval to formal responses to government consultation in relation to the scheme
- to ensure that Elected Members have full vision of actuarial reports, particularly those that impact on the Harrow Pension Fund.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following member elections or timely briefings to ensure Elected Members are aware of scheme changes.	LGPS specific seminar	All Elected Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members
Pension Meetings	Meeting	In line with the published Committee cycle.	Members elected onto Licensing & General Purposes Committee and Pension Fund Committee	All members of the Pension Committee/Panel
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	Cabinet

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Elected Member's key duties and responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS.

Pension Meetings – Reports submitted to the Pension Fund Committee.

Report and Verbal Briefing – Occasions when The Cabinet require vision of forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

Policy on communication with Pensions Team

Our objectives with regard to communication with pension administration staff are:

- ensure they are aware of changes and proposed changes to the LGPS scheme.
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management and re-engineering service processes continuously monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Identify training/development needs as part of Appraisal	Appraisal documentation	Annual exercise, reviewed at 6 months. Informal bi-monthly meetings	Appraisial process	All pensions staff
Staff meetings	Informal briefings	As and when required	By arrangement	All pensions staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All pensions staff

Explanation of communications

Appraisal – Formal staff review process where future training/development needs are identified in relation to the team's strategic priorities.

Staff meetings - Informal training sessions – which provide new and established staff with timely update on changes to pension legislation or processes and an opportunity to discuss such amendments with senior members

Attendance at external courses – to provide more tailored training where it is cost-effective to use external trainers

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Reports/written response/electronic postings	Various	Reports published annually and 'As and When required' in relation to general enquiries	Various	All Harrow constituents and other interested parties.

Explanation of communications

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council's Intranet site. Other ad hoc requests are responded to in light of the specific information request and utilising the most appropriate communications medium.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Pension Fund valuation reports • Rates & Adjustment (R&A) certificate • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Communities & Local Government (CLG), Her Majesty's Revenue and Customs HMRC)/all scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	CLG/HMRC
Formal resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Via email or post	CLG/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a statutory report issued every three years by the scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

New admission agreements – a legal requirement to notify both the Secretary of State and the HMRC of new admitted bodies.

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – Annual Survey

Performance Measurement

The Pensions Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	***Audience***	***Statutory delivery period***	***Target delivery period***
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 days of joining the LGPS
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All phone calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Retirement benefits to be issued within 3 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within working 8 days of relevant paperwork
Transfers in	Joiners/active members	Within two months of request	Within 5 days of receiving relevant paperwork
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

Quality

Audience	***Method***	***To consider***	***Notes***
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
Employers	Electronic	Scheduled / Admitted body specific issues	Regular feedback sessions.

Results

The Pensions office publish, annually, performance against client-agreed targets. Elected Members receive copy of all performance reports through the Committee reporting cycle.

Review Process

Our communication policy will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the policy statement will always be available either through the Pensions office, at:-

HR Operations

Harrow Council

3rd Floor South Wing

Civic Centre Station Road

Harrow Middlesex HA1 2XF

or on our Internet site under www.harrowpensionfund.org

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A brief guide to the Local Government Pension Scheme (LGPS)

Employees in England and Wales

Highlights of the LGPS

The LGPS gives you:

Secure benefits –
the scheme provides you with a future income, independent of share prices and stock market fluctuations.

At a low cost to you –
with tax-efficient savings for most people under ***State Pension Age***.

And your employer pays in too –
the scheme is provided by your employer who meets the balance of the cost of providing your benefits in the LGPS.

You can look forward to your retirement with the LGPS with:

A secure pension –
worked out every ***scheme year*** and added to your ***pension account***. The pension added to your account at the end of a ***scheme year*** is, if you are in the main section of the scheme, an amount equal to a 49th of your ***pensionable pay*** in that year. At the end of every ***scheme year*** the total amount of pension in your account is adjusted to take into account the cost of living (as currently measured by the ***Consumer Prices Index (CPI)***).

Flexibility to pay more or less contributions –
you can boost your pension by paying more contributions, which you would get tax relief on. You also have the option in the LGPS to pay half your normal contributions in return for half your normal pension. This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme when times are financially tough.

Tax-free cash –
you have the option when you draw your pension to exchange part of it for some tax-free cash.

Peace of mind –
your family enjoys financial security, with immediate life cover and a pension for your spouse, ***civil partner*** or ***eligible cohabiting partner*** and ***eligible children*** in the event of your death in service. If you ever become seriously ill and you've met the 2 years ***vesting period***, you could receive immediate ill health benefits.

Freedom to choose when to take your pension –
you do not need to have reached your ***Normal Pension Age*** in order to take your pension as, once you've met the 2 years ***vesting period***, you can choose to retire and draw your pension at any time between age 55 and 75. Your ***Normal Pension Age*** is simply the age you can retire and take the pension you've built up in full. However, if you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

Redundancy and Efficiency Retirement –
if you are made redundant or retired in the interests of business efficiency at or after age 55 you will, provided you've met the 2 years ***vesting period***, receive immediate payment of the main benefits you've built up (but there would be a reduction for early payment of any additional pension you have chosen to buy).

Flexible retirement –
if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, and you've met the 2 years ***vesting period***, draw some or all of the benefits you have already built up, helping you ease into retirement, although your benefits may be reduced for early payment.

The scheme

This guide is a short description of the conditions of membership and main scheme benefits that apply if you pay into the LGPS on or after 1 April 2014.

What kind of scheme is it?
The LGPS is a tax approved, defined benefit occupational pension scheme which was set up under the Superannuation Act 1972 (but, in the future, scheme rules will be made under the Public Service Pension Schemes Act 2013). The LGPS meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008. The amount of pension you earn in a ***scheme year*** is worked out each year and added to your ***pension account***. The total amount of pension in your ***pension account*** is revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living. The LGPS is very secure because the benefits are set out in law.

Who can join?
The LGPS covers employees working in local government and for other organisations that have chosen to participate in it. To be able to join the LGPS you need to be under age 75 and work for an employer that offers membership of the scheme. If you are employed by a designating body, such as a town or parish council, or by a non-local government organisation which participates in the LGPS (an ***admission body***), you can only join if your employer nominates you for membership of the scheme. Police officers, operational firefighters and, in general, teachers and employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

If you start a job in which you are eligible for membership of the LGPS you will be brought into the scheme, if your contract of employment is for 3 months or more. If it is for less than 3 months and you are, or during that period become, an ***Eligible Jobholder*** you will be brought into the scheme from the ***automatic enrolment date*** (unless your employer issues you with a postponement notice to delay bringing you into the scheme for up to a maximum of 3 months) or if your contract is extended to be for 3 months or more or you opt to join by completing an application form, you will be brought into the scheme from the beginning of the pay period after the one in which your contract is extended or you opt to join.

If you are brought into the scheme you have the right to opt out. You cannot complete an opt out form until you have started your employment.

How do I ensure that I have become a member of the LGPS?
On joining the LGPS relevant records and a ***pension account*** (for each employment in the scheme, if you have more than one) will be set up and an official notification of your membership of the LGPS will be sent to you. **You should check your pay slip to make sure that pension contributions are being deducted.**

Can I opt-out of the LGPS and re-join at a later date?
Yes you can opt-out of the scheme but if you are thinking of opting out you might want to first consider an alternative option which is to elect to move to the 50/50 section of the scheme. The 50/50 section allows you to pay half your normal contributions in return for half your normal pension build up. To find out more, see the section on **flexibility to pay less**.

If having considered the 50/50 option you still decide the LGPS is not for you, you can leave the LGPS at any time on or after your first day of eligible employment by giving your employer notice in writing. You might, however, want to take independent financial advice before making the final decision to opt out.

If you opt out of the LGPS before completing 3 months membership you will be treated as never having been a member and your employer will refund to you, through your pay, any contributions you have paid during that time.

If you opt out of the LGPS with 3 or more months membership and before completing the 2 years ***vesting period*** you can take a refund of your contributions (less any statutory deductions) or transfer out your pension to another scheme.

If you opt out of the LGPS after meeting the 2 years ***vesting period*** you will have deferred benefits in the scheme and will generally have the same options as anyone leaving their job before retirement.

If you opt-out, you can, provided you are otherwise eligible to join the scheme, opt back into the scheme at any time before age 75.

If you opt out of the LGPS then:

- on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008, your employer will automatically enrol you back into the LGPS if you are an ***Eligible Jobholder*** at that time in the job you've opted out from, or
- if on the date your employer is first required to comply with the automatic enrolment provisions under the Pensions Act 2008 you are not an ***Eligible Jobholder*** in the job you opted out from, your employer will, if you subsequently become an ***Eligible Jobholder*** in that job, automatically enrol you back into the LGPS from the ***automatic enrolment date***.

Your employer must notify you if this happens. You would then have the right to again opt out of the LGPS.

If you stay opted out your employer will normally automatically enrol you back into the LGPS approximately every 3 years from the date they have to comply with the automatic enrolment provisions provided, at the date your employer has to enroll you back in, you are an ***Eligible Jobholder***.

What do I pay?
Your contribution rate depends on how much you are paid but it's currently between 5.5% and 12.5% of your ***pensionable pay***. If you elect for the 50/50 section of the scheme you would pay half the rates listed below. The rate you pay depends on which pay band you fall into. When you join, and every April afterwards, your employer will decide your contribution rate. Also, if your pay changes throughout the year, your employer may decide to review your contribution rate.

Here are the pay bands and the rates that apply from April 2015.

Contribution table 2015/16	
If your actual pensionable pay is:	**You pay a contribution rate of:**
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
£151,801 or more	12.5%

The contribution rates and / or pay bands in the table above will be reviewed periodically and may change in the future.

Do I get tax relief?
As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your ***pensionable pay*** and you will be contracted out of the State Second Pension scheme (S2P). There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the annual allowance of £40,000 (2015/16) you may have to pay a tax charge. Most people will not be affected by the annual allowance.

Does my employer contribute?
Your employer currently pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the scheme.

Is there flexibility to pay less contributions?
Yes, in the scheme there is an option known as 50/50 which provides members with the facility to pay half the normal contributions and to build up half the normal pension during the time the reduced contributions are being paid - see the section on **flexibility to pay less**.

Can I make extra contributions to increase my benefits?
You can increase your benefits by paying additional contributions, known as Additional Pension Contributions (APCs), to buy extra LGPS pension, or by making payments to the scheme's ***Additional Voluntary Contribution***s ***(AVC)*** arrangement. Your pension fund can give you more information on

these options. Contact details are at the end of this guide.

You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

What if I've been a member before and can now re-join the LGPS?
If you rejoin the LGPS and you have deferred benefits in an LGPS fund in England or Wales your deferred benefits will normally be automatically joined with your new active ***pension account***. If, for benefits that are normally automatically joined, you want to retain separate deferred benefits then you must make such an election within 12 months of rejoining the scheme (or such longer period as your employer and pension fund may allow). If you rejoin the LGPS in England or Wales and have a deferred refund this **must** be joined with your new active ***pension account***.

What about any non-LGPS pension rights I have?
If you have paid into another non-LGPS pension arrangement or to the LGPS in Scotland or Northern Ireland, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer and pension fund allows you longer.

What if I'm already receiving an LGPS pension – will it be affected?
If you are already drawing a pension from the scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. They will let you know whether your pension in payment is affected in any way.

If you are drawing a pension from the scheme, all of which you built up after 31 March 2014, and you are re-employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment. The only exception to this is if you are in receipt of an LGPS ill-health pension of the type that is stopped if you are in any gainful employment, in which case you must inform the employer who awarded you that pension and they will let you know whether your pension in payment should be stopped.

Contribution Flexibility

Flexibility to pay less
When you join the scheme you will be placed in the main section of the scheme. However, once you are a member of the scheme you will be able to elect in writing, at any time, to move to the 50/50 section if you wish.

The 50/50 section gives you the ability to pay half your normal contributions. This flexibility may be useful during times of financial hardship as it allows you to remain in the scheme, building up valuable pension benefits, as an alternative to opting out of the scheme.

A 50/50 option form is available from your employer. If you have more than one job in which you contribute to the scheme you would need to specify in which of the jobs you wish to be moved to the 50/50 section.

If you elect for 50/50 you would be moved to that section from the next available pay period. You would then start paying half your normal contributions and build up half your normal pension during the time you are in that section. When you make an election for the 50/50 section your employer must provide you with information on the effect this will have on your benefits in the scheme.

If you were to die in service whilst in the 50/50 section of the scheme the lump sum death grant and any survivor pensions would be worked out as if you were in the main section of the scheme. If you are awarded an ill-health pension which includes an amount of enhanced pension, the amount of enhanced pension added to your ***pension account*** is worked out as if you were in the main section of the scheme.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the main section of the scheme approximately three years from the date they first have to comply with the automatic enrolment provisions of the Pensions Act 2008 (and approximately every three years thereafter). If you wished to continue in the 50/50 section at that point you would need to make another election to remain in the 50/50 section.

There is no limit to the number of times you can elect to move between the main and the 50/50 section, and vice versa.

Flexibility to pay more
There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by paying:

- Additional Pension Contributions (APCs) to buy extra LGPS pension,
- ***Additional Voluntary Contributions (AVCs)*** arranged through the LGPS (in-house AVCs),
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,
- Contributions to a stakeholder or personal pension plan.

Your pension fund can give you more information on the first two of these options. Contact details are at the end of this guide.

Your Pension

Your LGPS benefits are made up of:

- An annual pension that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- The option to exchange part of your pension for a tax-free lump sum paid when you draw your pension benefits.

How is my pension worked out?
Every year, you will build up a pension at a rate of 1/49th of the amount of ***pensionable pay*** (and ***assumed pensionable pay***) you received in that ***scheme year*** if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). If during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due

to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is based on your ***assumed pensionable pay*** (other than during any part of ***relevant child related leave*** where the ***pensionable pay*** you received was higher than your ***assumed pensionable pay***). The amount of pension built up during the ***scheme year*** is then added to your ***pension account*** and revalued at the end of each ***scheme year*** so your pension keeps up with the cost of living.

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently using your membership built up to 31 March 2014 and your final year's pay.

The examples below show how benefits based on membership in the LGPS built up after 31 March 2014 are worked out.

If you are nearing retirement and you were a member of the scheme before 1 April 2014 there is an additional protection in place to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the **underpin.**

The **underpin** applies to you if you were:

- an active member on 31 March 2012, and
- you are within 10 years of your protected ***Normal Pension Age*** on 1 April 2012, and
- you haven't had a continuous break in active membership of a public service pension scheme of more than 5 years (after 31 March 2012), and
- you've not drawn any benefits in the LGPS before protected ***Normal Pension Age***, and
- you leave with an immediate entitlement to benefits.

The underpin will not apply to you if you elect to opt out of the scheme before your protected ***Normal Pension Age*** or you wish to draw benefits from an age where you would have required employer consent to do so under the pre 1 April 2014 scheme (normally before age 60).

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your protected ***Normal Pension Age*** if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section of the scheme at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2014. If it isn't, the difference will be added into your ***pension account*** when you draw your benefits.

What pensionable pay is used to work out the pension I build up after 31 March 2014?
The amount of pension added into your ***pension account*** at the end of the ***scheme year*** is worked out using your ***pensionable pay*** which is the amount of pay on which you pay your normal pension contributions.

However if during the ***scheme year*** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on ***relevant child related leave*** or ***reserve forces service leave*** then, for the period of that leave, your pension is worked out based on your ***assumed pensionable pay*** (other than during any part of ***relevant child related leave*** where the ***pensionable pay*** you received was higher than your ***assumed pensionable pay***).

Can I exchange part of my pension for a lump sum?
You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £312,500 (2015/16 figure) less the value of any other pension rights you have in payment. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

How is my pension worked out - an example

Let's look at the build-up in a member's ***pension account*** for 5 years in the scheme.

Let's assume that the member joins the scheme on 1 April 2014, that their ***pensionable pay*** is £24,500 in ***scheme year*** 1 and their ***pensionable pay*** increases by 1% each year. The cost of living (revaluation adjustment) for the end of the scheme year 31 March 2015 is 1.2%. Let's assume that the cost of living (revaluation adjustment) for the following 4 years is 2% each year.

Scheme Year	**Opening Balance**	**Pension Build up in Scheme Year** Pay/ Build up rate = Pension	**Total Account 31 March**	**Cost of Living Revaluation Adjustment**	**Updated Total Account**
1 2014/15	£0.00	£24,500/49 = **£500.00**	£500.00	1.2% = £6	£500.00 + £6.00 = **£506.00**
2 2015/16	£506.00	£24,745/49 = **£505.00**	£1,011.00	2% = £20.22	£1,011.00 + £20.22 = **£1,031.22**
3 2016/17	£1,031.22	£24,992.45/49 = **£510.05**	£1,541.27	2% = £30.82	£1,541.27 + £30.82 = **£1,572.09**
4 2017/18	£1,572.09	£25,242.37/49= **£515.15**	£2,087.24	2% = £41.74	£2,087.24 + £41.74 = **£2,128.98**
5 2018/19	£2,128.98	£25,494.79/49 = **£520.30**	£2,649.28	2% = £52.99	£2,649.28 + £52.99 = **£2,702.276.**

If you joined the LGPS before 1 April 2014, your benefits for membership before 1 April 2014 are calculated differently.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your ***final pay*** plus an automatic tax-free lump sum of 3 times your pension.

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your ***final pay***. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

Taking AVCs as cash
If you pay ***Additional Voluntary Contributions (AVCs)*** via the LGPS you may elect to take all of your AVC fund as a tax-free lump sum if you draw it at the same time as your main LGPS benefits

provided, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum doesn't exceed £312,500 (2015/16 figure) less the value of any other pension rights you have in payment.

Details of this option will be given to you shortly before your retirement.

Retirement

When can I retire and draw my LGPS pension?
You can choose to retire and draw your pension from the LGPS at any time from age 55 to 75, provided you have met the 2 years ***vesting period*** in the scheme.

The ***Normal Pension Age*** in the LGPS is linked to your ***State Pension Age*** (but with a minimum of age 65). If the ***State Pension Age*** changes in the future then this change will also apply to your ***Normal Pension Age*** for benefits built up after 31 March 2014.

If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later. You must draw your benefits in the LGPS before your 75th birthday.

You may have to retire at your employer's instigation, perhaps because of redundancy, business efficiency or permanent ill health. Your LGPS benefits, even in these circumstances can, provided you have met the 2 years ***vesting period*** in the scheme, provide you with an immediate retirement pension, which may even be enhanced.

If you voluntarily choose to retire before, on or after your ***Normal Pension Age*** you can defer drawing your benefits but you must draw them before age 75. If you draw your pension after your ***Normal Pension Age***, your benefits will be paid at an increased rate to reflect late payment.

If you built up membership in the LGPS before 1 April 2014 then you will have membership in the final salary scheme. These benefits have a different ***Normal Pension Age***, which for most is age 65.

Will my pension be reduced if I voluntarily retire before my Normal Pension Age?
If you choose to retire before your ***Normal Pension Age*** your benefits will normally be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed under the heading **How is my pension worked out?** and are then reduced. How much your benefits are reduced by depends on how early you draw them.

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

What if I lose my job through redundancy or business efficiency?
If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits, provided you have met the 2 years ***vesting period*** in the scheme. However, any additional pension you paid for by Additional Pension Contributions (APCs) or paid for by Shared Cost Additional Pension Contributions (SCAPCs) would be paid at a reduced rate if the retirement occurred before your ***Normal Pension Age*** (to take account of the additional pension being paid for longer). Also if you have bought additional pension by Additional Regular Contributions (ARCs), that additional pension would be paid at a reduced rate if the retirement occurred before your pre 1 April 2014 ***Normal Pension Age*** which, for most, is age 65.

What happens if I have to retire early due to ill health?
If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you have to have met the 2 years ***vesting period*** in the scheme and your employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that you will be permanently unable to do your own job until your ***Normal Pension Age*** and that you are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement if you are unlikely to be capable of gainful employment within 3 years of leaving.

What if I want to have a gradual move into retirement?
This is known as flexible retirement. From age 55, if you reduce your hours or move to a less senior position, and provided you have met the 2 years ***vesting period*** in the scheme and your employer agrees, you can draw some or all of the pension benefits you have built up – helping you ease into retirement. If you take flexible retirement before your ***Normal Pension Age*** your benefits may be reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part. If your employer agrees to flexible retirement you can still draw your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the scheme. Flexible retirement is at the discretion of your employer and they must set out their policy on this in a published statement.

What if I carry on working after my Normal Pension Age?
If you carry on working after your ***Normal Pension Age*** you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay drawing it. You must draw your pension by no later than age 75. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

How does my pension keep its value?
On retiring on or after age 55 your LGPS pension increases in line with the cost of living every year throughout your retirement. As the cost of living increases, so will your pension. If you are retired on ill health grounds, your pension is increased each year regardless of your age.

Protection for your family

What benefits will be paid if I die?
If you die in service as a member of the LGPS the following benefits are payable:

- A lump sum death grant of three times your ***assumed pensionable pay***.
- Pensions for ***eligible children***.
- A spouse's (from an opposite sex or same sex marriage),, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension, equal to 1/160th of your ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) times the period of your membership in the scheme after 31 March 2014, plus 49/160^{ths} of the amount of any pension credited to your pension account following a transfer of pension rights into the scheme, plus an amount equal to 1/160th of your ***assumed pensionable pay*** for each year of membership you would have built up from your date of death to your ***Normal Pension Age***. For final salary

membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to $1/160^{th}$ of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

If you are in the 50/50 section of the scheme when you die this does not impact on the value of any pension for your **spouse, *civil partner*, *eligible cohabiting partner*** or ***eligible children*.**

If you die after retiring on pension, a spouse's (from an opposite sex or same sex marriage), ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's*** pension and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to $1/160^{th}$ of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014 (including any enhancement given if retirement was on ill health grounds), plus $49/160^{ths}$ of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to $1/160^{th}$ of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry or enter into a ***civil partnership*** after retiring in which case it could be less. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's pension***).

A lump sum death grant will be paid if you die after retiring on pension, less than 10 years pension has been paid and you are under age 75. The amount payable would be 10 times the level of your annual pension prior to giving up any pension for a tax-free cash lump sum, reduced by any pension already paid to you and the amount of any tax-free cash lump sum you chose to take when you drew your pension at retirement. There is a slight modification to this calculation for any part of the pension you are drawing which relates to membership prior to 1 April 2014. If you are receiving a pension and are also an active member of the scheme, or have a separate deferred benefit when you die this may impact on the death grant you receive.

What conditions need to be met for an eligible cohabiting partner's survivor's pension to be payable?

If you have a cohabiting partner, of either opposite or same sex, they will be entitled to receive a survivor's pension on your death if they meet the criteria to be considered to be an ***eligible cohabiting partner***.

For an ***eligible cohabiting partner's*** survivor's pension to be payable, all of the following conditions must have applied for a continuous period of at least 2 years on the date of your death:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were a married couple, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were a married couple or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies the pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

Who is the lump sum death grant paid to?
The LGPS allows you to indicate who you would like any death grant to be paid to by completing and returning an expression of wish form. This form is available from the pension section. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to. You can find out how to contact the pension fund at the end of this guide.

Leavers without an immediate entitlement to benefits

If you leave your job before retirement and have met the 2 years *vesting period* you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave your job before retirement and <u>have not</u> met the 2 years *vesting period* you will have three options:

- you will normally be able to claim a refund of your contribution, or
- you may be able to transfer your benefits to a new pension arrangement, or
- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must, in any event, be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Refunds of Contributions
If you leave, or opt out of the scheme after 3 months' membership, and you've not met the 2 years ***vesting period*** you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P). A refund of contributions must be paid within 5 years of your leaving the scheme (or age 75 if earlier).

Deferred benefits
If you leave before your ***Normal Pension Age*** and you meet the 2 years ***vesting period*** you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described in the **How is my pension worked out** section using the length of your membership up to the date that you left the scheme. During the period your pension benefits are deferred they will be increased each year in line with the cost of living.

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your ***Normal Pension Age***, but:
- they may be put into payment earlier and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be

capable of undertaking any gainful employment within 3 years of applying for the benefit or by your ***Normal Pension Age***, whichever is the earlier; or

- you can, if you wish, elect to receive your deferred benefits early from age 55 onwards, or
- you can, if you wish, elect not to draw your deferred benefits at your ***Normal Pension Age*** and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid earlier than your ***Normal Pension Age***, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after your ***Normal Pension Age*** will be increased.

If you leave with deferred benefits and you die before they come into payment, a lump sum death grant equal to 5 years' pension will be paid. If you have deferred benefits and are also an active member of the scheme when you die this may impact on the death grant you receive. The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from the pension section. You can find out how to contact the pension fund at the end of this guide. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

If you leave with deferred benefits and die before they come into payment a spouse's, ***civil partner's*** or, subject to certain qualifying conditions, an ***eligible cohabiting partner's pension*** and pensions for ***eligible children*** are payable. The pension payable to a spouse, ***civil partner*** or ***eligible cohabiting partner*** is equal to 1/160th of the ***pensionable pay*** (or ***assumed pensionable pay*** where applicable) upon which your pension was calculated times the period of your membership in the scheme after 31 March 2014, plus 49/160^{ths} of the amount of any pension credited to your ***pension account*** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or ***civil partner*** is equal to 1/160th of your ***final pay*** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry or enter into a ***civil partnership*** after retiring in which case it could be less. For an ***eligible cohabiting partner*** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an ***eligible cohabiting partner's*** pension).

What if I have two or more LGPS jobs?

If you have two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all of them, and you are entitled to deferred benefits from the job (or jobs) you have left, your deferred benefits from the job that has ended are automatically transferred to the active ***pension account*** for the job you are continuing in, unless you elect to keep them separate. If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you are not entitled to deferred benefits from the job (or jobs) you have left, you cannot have a refund of your contributions and you must transfer your benefits to the ***pension account*** for the job you are continuing in.

Transferring your benefits

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into another pension arrangement or a new employer's pension scheme. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions. You cannot transfer your benefits if you leave with less than 3 months membership or (other than in respect of Additional Voluntary Contributions (AVCs)) if you leave less than one year before your ***Normal Pension Age***. An option to transfer (other than in respect of Additional Voluntary Contributions (AVCs)) must be made at least 12 months before your

Normal Pension Age.

Your new pension provider will require a transfer value quotation which, under the provisions introduced by the Pensions Act 1995, your pension fund will guarantee for a period of three months from the date of calculation.

Alternatively, if you return to employment with an employer participating in the LGPS and rejoin the LGPS after having previously built up LGPS pension rights (i.e. you previously left an LGPS employment with deferred benefits) then these deferred benefits will normally automatically be transferred to the active ***pension account*** for your new job, unless you elect to keep them separate. If, for benefits that are normally automatically transferred, you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. If you rejoin the LGPS after having previously left an LGPS employment without building up pension rights but you deferred taking a refund of contributions (normally where you have less than two years membership) then this deferred refund **must** be joined with your new active ***pension account*** in the scheme.

Keep in touch – remember to let the pension fund know if you move house.

Help with pension problems

Who can help me if I have a query or complaint?
If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact your pension fund**.** They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If your query is about your contribution rate, please contact your employer's personnel/HR or payroll section so they can explain how they have decided which contribution band you are in.

If you are still dissatisfied with any decision made in relation to the scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the scheme is well regulated. There are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**
  In the first instance you should write to the adjudicator appointed by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer period as the adjudicator considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The adjudicator will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the scheme's administering authority to have it reconsidered.

  A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the pension fund.

- **The Pensions Advisory Service (TPAS)**
  TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

11 Belgrave Road
London
SW1V 1RB Telephone 0300 1231047
Website www.pensionsadvisoryservice.org.uk

- **Pensions Ombudsman**
  In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

  11 Belgrave Road
  London
  SW1V 1RB Telephone 0207 630 2200
  Website www.pensions-ombudsman.org.uk

- **The Pensions Regulator**
  This is the regulator of work based pension schemes. The Pensions Regulator has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

  Napier House
  Trafalgar Place
  Brighton
  BN1 4DW Telephone 0845 6000707
  Website www.thepensionsregulator.gov.uk

How can I trace my pension rights?
The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to:

The Pension Tracing Service
The Pension Service 9
Mail Handling Site
Wolverhampton
WV98 1LU Telephone 0845 6002 537
Website www.gov.uk/find-lost-pension

Don’t forget to keep your pension providers up to date with any change in your home address.

Some terms we use

Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Admission Body
An admission body is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.

Assumed Pensionable Pay
This provides a notional ***pensionable pay*** figure to ensure your pension is not affected by any reduction in ***pensionable pay*** due to a period of sickness or injury on reduced contractual pay or no pay, or ***relevant child related leave*** or ***reserve forces service leave***.

If you have a period of reduced contractual or no pay due to sickness or injury or you have a period of ***relevant child related leave*** or ***reserve forces service leave*** then your employer needs to provide the pension fund with the ***assumed pensionable pay*** you would have received during that time unless during the period of ***relevant child related leave*** the ***pensionable pay*** received was higher than the value of the ***assumed pensionable pay***. This requires a calculation to be carried out by your employer to determine what your pay would have been for the period when you were on reduced contractual pay or no pay due to sickness or the period of ***relevant child related leave*** or ***reserve forces service leave***.

The ***assumed pensionable pay*** is calculated as the average of the ***pensionable pay*** you received for the 12 weeks (or 3 months if monthly paid) before the pay period in which you went on to reduced pay or no pay because of sickness or injury or you started a period of ***relevant child related leave*** or ***reserve forces service leave***. In calculating the average, any reduction due to authorised leave of absence or due to a trade dispute is ignored. The resulting figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on ***relevant child related leave*** or ***reserve forces service leave.***

Automatic enrolment date
This is the earlier of:
- the day you reach age 22 provided you are earning more than £10,000 (2015/16 figure) a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 (2015/16 figure) in the job, on an annualised basis, provided you are aged 22 or more and under ***State Pension Age*** at that time.

Civil Partnership (Civil Partner)
A ***Civil Partnership*** is a relationship between two people of the same sex (***civil partners***) which is formed when they register as civil partners of each other.

Consumer Prices Index (CPI)
The ***Consumer Price Index (CPI)*** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your ***pension account*** at the end of every ***scheme year*** when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme

and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be your natural child (who must be born within 12 months of your death), or
- be your adopted child, or
- be your step-child or a child accepted by you as being a member of your family (this doesn't include a child you sponsor for charity) and be dependent on you.

Eligible children must meet the following conditions:

- be under age 18, or
- be aged 18 or over and under 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
    - has not reached the age of 23, or
    - the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

Eligible cohabiting partner

An ***eligible cohabiting partner*** is a partner you are living with who, at the date of your death, has met all of the following conditions for a continuous period of at least 2 years:

- you and your cohabiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, and
- you and your cohabiting partner have been living together as if you were a married couple, or ***civil partners***, and
- neither you or your cohabiting partner have been living with someone else as if you/they were a married couple or ***civil partners***, and
- either your cohabiting partner is, and has been, financially dependent on you or you are, and have been, financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

On your death, a survivor's pension would be paid to your cohabiting partner if:

- all of the above criteria apply at the date of your death, and
- your cohabiting partner satisfies your pension fund that the above conditions had been met for a continuous period of at least 2 years immediately prior to your death.

You are not required to complete a form to nominate a cohabiting partner for entitlement to a cohabiting partner's pension. However, you can provide your pension fund with your cohabiting partner's details. Your pension fund will require evidence upon your death to check that the conditions for a cohabiting partner's pension are met.

Eligible Jobholder
An ***eligible jobholder*** is a worker who is aged a least 22 and under ***State Pension Age*** and who earns more than the annual amount of £10,000 (2015/16 figure).

Final pay
This is usually the pay in respect of (i.e. due for) your final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your normal pay, contractual shift allowance, bonus, contractual overtime (but not non-contractual overtime), Maternity Pay, Paternity Pay, Adoption Pay, Shared Parental Pay and any other taxable benefit specified in your contract as being pensionable.

Normal Pension Age
Normal Pension Age is linked to your ***State Pension Age*** for benefits built up from April 2014 (but with a minimum of age 65) and is the age at which you can take the pension you have built up in full. If you choose to take your pension before your ***Normal Pension Age*** it will normally be reduced, as it's being paid earlier. If you take it later than your ***Normal Pension Age*** it's increased because it's being paid later.

You can use the Government's ***State Pension Age*** calculator (www.gov.uk/calculate-state-pension) to find out your ***State Pension Age***. Please note that this calculator does not include proposed changes to ***State Pension Age***.

Remember that your ***State Pension Age*** may change in the future and this would also change your ***Normal Pension Age*** in the LGPS for benefits built up from April 2014. Once you start drawing your pension any subsequent change to your ***State Pension Age*** will not affect your ***Normal Pension Age*** in the LGPS.

If you were paying into the LGPS before 1 April 2014 your final salary benefits retain their protected ***Normal Pension Age*** - which for most is age 65. However all pension benefits drawn on normal retirement must be taken at the same date i.e. you cannot separately draw your final salary benefits (built up before April 2014) at age 65 and your benefits built up in your ***pension account*** (built up from April 2014) at your ***Normal Pension Age*** (which for your benefits built up from April 2014 is linked to your ***State Pension Age*** but with a minimum of age 65).

Pension Account
Each ***scheme year*** the amount of pension you have built up during the year is worked out and this amount is added into your active ***pension account***. Adjustments may be made to your account during the ***scheme year*** to take account of any transfer of pension rights into the account during the year, any additional pension you may have decided to purchase during the year or which is granted to you by your employer, any reduction due to a Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and any reduction due to an Annual Allowance tax charge that you have asked the scheme to pay on your behalf. Your account is then revalued at the end of each ***scheme year*** to take account of the cost of living. This adjustment is carried out in line with the Treasury Revaluation Order index which, currently, is the rate of the ***Consumer Prices Index (CPI).***

You will have a separate ***pension account*** for each employment. That ***pension account*** will hold the entire pension built-up for that employment.

In addition to an active member's **pension account** there are also:

- a deferred member's ***pension account***;
- a deferred refund account;
- a retirement ***pension account***;
- a flexible retirement ***pension account***;
- a deferred pensioner member's account;
- a pension credit account; and
- a survivor member's account.

These accounts will be adjusted by any debits for any Pension Sharing Order or qualifying agreement in Scotland (following a divorce or dissolution of a ***civil partnership***) and for any Annual Allowance tax charge that you have asked the scheme to pay on your behalf. These accounts are currently increased each April in line with the ***Consumer Prices Index (CPI)***.

Pensionable Pay
The pay on which you normally pay contributions is your normal salary or wages plus any shift allowance, bonuses, overtime (both contractual and non-contractual), Maternity Pay, Paternity Pay, Adoption Pay , Shared Parental Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay, pay relating to loss of future pensionable payments or benefits, any pay paid by your employer if you go on ***reserve forces service leave*** nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

Relevant Child Related Leave
Relevant child related leave includes periods of Ordinary Maternity, Adoption or Shared Parental Leave (normally first 26 weeks), Paternity Leave and any periods of paid Additional Maternity or Adoption Leave (normally after week 26 weeks up week 39) or Shared Parental Leave.

Reserve Forces Service Leave
This occurs when a Reservist is mobilised and called upon to take part in military operations. The period of mobilisation can range from three months or less and up to a maximum of 12 months. During a period of ***reserve forces service leave*** you will, if you elect to stay in the LGPS during that leave, continue to build up a pension based on the rate of ***assumed pensionable pay*** you would have received had you not been on ***reserve forces service leave***.

Scheme Year
The scheme year runs from 1 April to 31 March each year.

State Pension Age
This is the earliest age you can receive the state basic pension. ***State Pension Age*** is currently age 65 for men. ***State Pension Age*** for women is currently being increased to be equalised with that for men and will reach 65 by November 2018.

State Pension Age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60

6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

The ***State Pension Age*** will then increase to 66 for both men and women from December 2018 to October 2020.

Increase in State Pension Age from 65 to 66 for men and women

Date of Birth	New State Pension Age
6 December 1953 - 5 October 1954	In the range 65 - 66
After 5 October 1954	66

Under current legislation the ***State Pension Age*** is due to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046. However, the government has announced plans to link rises in the ***State Pension Age*** above age 67 to increases in life expectancy. To find out your ***State Pension Age*** please visit https://www.gov.uk/calculate-state-pension.

Vesting Period
The ***vesting period*** in the LGPS is 2 years. You will meet the 2 years ***vesting period*** if:

- you have been a member of the LGPS in England and Wales for 2 years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was 2 or more years or, when added to the period of time you have been a member of the LGPS is, in aggregate, 2 or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (i.e. to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation as at 1 April 2015.

The national web site for members of the LGPS who contribute to the scheme on or after 1 April 2014 can be found at www.lgps2014.org.

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1.25 million in 2015/16), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2015/16), those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the scheme is available from:

Harrow Pension Fund
HR Operations – Pensions, 3rd Floor South Wing, Civic Centre,
Station Road, Harrow, HA1 2XF.
Tel: 020 8901 2655 Fax: 020 8424 7520
Email: pension@harrow.gov.uk
Website: Harrowpensionfund.org

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LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

November 2015

CONTENTS

Introduction

1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role it has responsibility to ensure the proper management of the Fund.

1.2 This SIP meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations") and has been prepared after taking appropriate advice.

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

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

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

Fund Objectives

2.1 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to optimise performance within risk parameters thereby minimising the level of employer contributions in order to meet the cost of pension benefits as required by statute.

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

Investment Objectives

3.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the funding objectives as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Investment style

4.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure, as set out in the table below, was agreed in in November 2013 and implemented during 2014-15. The majority of the Fund is invested in "growth assets" i.e. those expected to generate 'excess' returns over the long term. These include equities, and private equity. The structure also includes a small allocation to "cash flow matching" assets, mainly corporate bonds. Additionally, the investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

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

4.2 The above allocations, ranges and the management structure comply with the limits set out in The Regulations.

4.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

4.4 The investment strategy is reviewed periodically.

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

4.6 Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Section 151 officer has delegated authority to undertake a quarterly rebalancing of the equity and bond portfolios should they breach the above ranges. Any rebalancing activity authorised by the Section 151 officer will be reported to the next meeting of the Pension Fund Committee. Rebalancing within the bond portfolio is delegated to the fund manager.

4.7 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.

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

Performance

5.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by State Street Global Services who provide independent performance statistics and reports.

5.2 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration

Types of Investments

6.1 A management agreement is in place for each fund manager, setting out where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

6.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the whole fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

Investment Risk

7.1 Whilst the objective of the Council is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Council acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund.

7.2 A policy of diversification for its investments and investment managers helps the Council to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the Fund. Manager performance is monitored quarterly with investigation of any significant deviations from intended strategy.

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

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

7.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service provided by Club Vita, a “sister” company of the Fund’s Actuary, Hymans Robertson. Club Vita carries out a comprehensive analysis of the Fund’s longevity data to facilitate an understanding which helps to manage this issue in the most effective way.

The realisation of investments

8.1 A realisable (liquid) investment is one that can be readily converted into cash, for example to satisfy payments out of the Fund. The majority of the Fund’s assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

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

Investment advice

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

Social, environmental or ethical considerations

10.1 The Council recognizes that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. As a general principle it considers that the long-term financial performance of a company in which it invests is likely to be enhanced if it follows good practice in its environmental, social and governance activities.

All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which it invests. The Council expects its managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.

Exercise of the rights (including voting rights) attaching to investments

11.1 The Council is an active shareholder and will exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

11.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

Additional Voluntary Contributions (AVC)

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

Compliance with "Myners" Principles

13.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated "Myners" principles set out in the Chartered Institute of Public Finance and Accountancy's publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012." These principles codify best practice in investment decision making

Appendix 1

Compliance with "Myners" Principles"

1. Effective decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

<u>Fund compliance – Full</u>

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

2 Clear objectives

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

<u>Fund compliance - Full</u>

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

3 Risks and Liabilities

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

Fund compliance – Full

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

4 Performance Assessment

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

Fund compliance – Partial

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

5 Responsible Ownership

Administering authorities should:

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

Fund compliance – Partial

- The Fund's policy on the extent to which its investment managers take account of social, environmental and ethical considerations is stated in the Statement of Investment Principles.
- The Fund expects its managers to engage positively and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.
- Where applicable, the Fund expects its managers to have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Whilst the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers the Council encourages its managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

6 Transparency and Reporting

Administering authorities should:

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

Fund compliance – Full

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

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

APPENDIX 5

LONDON BOROUGH OF HARROW

PENSION FUND

FUNDING STRATEGY STATEMENT

MARCH 2014

Contents

1 Introduction

1.1 What is this document?

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

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

1.2 What is the London Borough of Harrow Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

In the Appendices we cover various issues in more detail:

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact

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Linda.D'Souza@harrow.gov.uk

2 Basic funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

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

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

2.2 How is a deficit (or surplus) calculated?

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

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

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

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

2.3 How are contribution rates calculated for different employers?

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

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

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

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

2.4 What else might affect the employer's contribution?

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

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

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

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

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

2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which Council Tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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

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

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

3 Calculating contributions for individual employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

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

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

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

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

3.3 The different approaches used for different employers

Type of Employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Council Pool**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)		Projected Unit Credit approach if open (see Appendix D – D.2)	Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach if open, Attained Age otherwise (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	Note (h)		Notes (h)& (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis.

	principles applied would be as per Note (j).		Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

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

Type of employer	Council Pool	Academies
Max cont increase	+0.5% of pay	+1.0% of pay
Max cont decrease	-0.5% of pay	

The stabilisation criteria and limits will be reviewed at 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account employer membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

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

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

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three years' period until the next valuation will be set as monetary amounts.

Note (e) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

Note (g) (New academy employers)

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

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

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

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

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data,all as at the day prior to conversion.

e) For the current valuation period (1 April 2014 to 31 March 2017) the maximum percentage increase in employer's contribution will be limited to 1.0%

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn't responsible for, however, note all parties should take their own professional advice. For example the contractor should typically be responsible for pension costs that arise from;

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

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

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

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

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

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

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

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

Schools generally are also pooled with their funding council. However there may be exceptions for specialist or independent schools.

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

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

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

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

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

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

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pension Fund Committee meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

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

b) Comments were requested within 14 days;

c) There was an Employers Forum on 23 January at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.harrow.gov.uk
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;

- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

In any event, changes to the FSS would need agreement by the Pensions Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

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

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

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

C3 Demographic risks

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

Risk	Summary of Control Mechanisms
	permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

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

C5 Governance risks

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

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

Appendix D – The calculation of employer contributions

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

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

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

Employer contributions are normally made up of two elements:

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

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

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

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

D2 How is the Future Service Rate calculated?

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

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

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

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

a) Employers which admit new entrants

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

b) Employers which do not admit new entrants

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

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

D3 How is the Solvency / Funding Level calculated?

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

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

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

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

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

D4 What affects a given employer's valuation results?

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

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

over the period between each triennial valuation.

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

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

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

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

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5%

above the retail prices index (RPI) per annum.This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum.

c) Pension increases

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

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

e) General

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

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

Appendix F – Glossary

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

Administering Authority
The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies
Employers which voluntarily participate in the Fund, so that their employees and ex-employees are**members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).

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

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

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

Deficit repair/recovery period
The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.

Designating Employer
Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

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

Employer
An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.

Funding level
The ratio of assets value to **liabilities** value: for further details (see 2.2).

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

	assumptions.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s **covenant** to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer’s annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still

require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Annual Audit Letter 2015/16

London Borough of Harrow

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DRAFT - October 2016

Contents

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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.psaa.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.

Headlines

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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	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. Our work identified the following significant matters: — 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 om 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	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. 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. We raised a total of 14 recommendations as part of our audit, all apart form one have been accepted by Management and have action plans in place to ensure they are implemented ahead of the year end.

Headlines (cont)

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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	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: — The quality and review of PPE; — The processing of journals; and — Fully utilising the Pension Fund bank account. We will formally follow up these recommendations as part of our 2016/17 work.
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	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. Fees for other grants and claims (Teachers Pension and Pooling Capital Receipts) are £6,500 excluding VAT.

Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
1	**Quality and review of PPE** 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: ▪ 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 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.	**Accepted** 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. **Responsible Officers:** Head of Corporate Estate / Technical Accounting Manager **Due Date:** February 2017
2	**Processing of Journals** 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. 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. 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.	**Accepted** 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. Processing of journals will be discussed at the next Finance Team meeting and training provided where required **Responsible Officer:** Interim Technical Accounting Manager **Due Date:** Implemented (August 2016)

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Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
3	**Use of Pension Fund bank account** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back 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.	**Not Accepted** 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. **Responsible Officer:** Interim Treasury and Pension Fund Manager

Appendix 2: Summary of reports issued

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.

External Audit Plan (January 2016)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2016)

The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

Auditor's Report (September 2016)

The Auditor's Report included our audit opinion on the financial statements including the pension fund accounts along with our VFM conclusion.

2016

January

February

March

April

May

June

July

August

September

October

November

Report to Those Charged with Governance (September 2016)

The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2016)

This Annual Audit Letter provides a summary of the results of our audit for 2015/16.

KPMG

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.

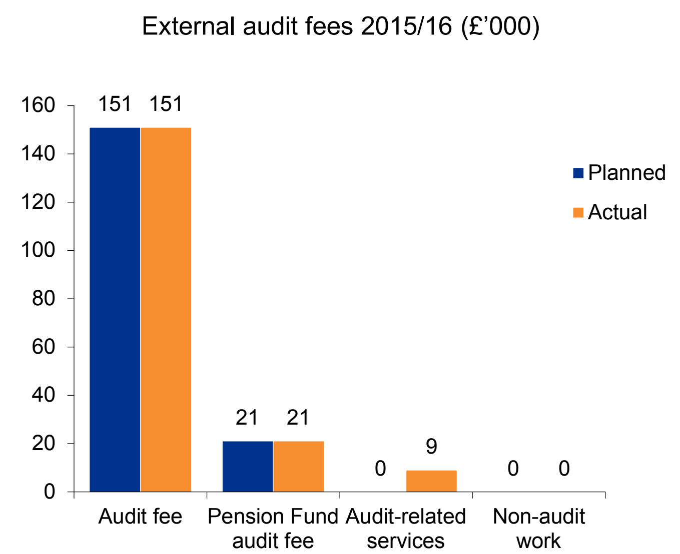
Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

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.



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REPORT FOR: **Pension Fund Committee**

Date of Meeting:	22 November 2016
Subject:	**Information Report -** Local Government Pension Scheme Pooling Arrangements Update
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and, in particular, on the progress in the global equity procurement and concerns over the revenue stream of the CIV.

Section 2 – Report

A. Introduction

1. At their last meeting on 6 September 2016 the Committee received an update on pooling arrangements specifically:
    - Membership of the CIV
    - Sub-funds open and being considered

Harrow COUNCIL LONDON

2. Since that meeting of the Committee there has been a meeting of the Member-level Sectoral Joint Committee on 18 October and the officer-level seminar the next day.

3. Developments of which the Committee have not yet been advised are discussed below as follows:
    - Sub-section B – Update on funds "in the pipeline"
    - Sub-section C – Global equity procurement
    - Sub-section D – Harrow strategy
    - Sub-section E – CIV business plan

B. Update on funds "in the pipeline"

4. Sub-funds expected to be launched in the next six months are as follows:
    - Autumn 2016 – Newton Real Return
    - Autumn 2016 – Newton Global Equity
    - Autumn 2016 – Majedie Asset Management – active UK equity
    - Early 2017 – Longview Global Equity

5. Due to "operational issues" including re-balancing, fee policy and asset type compatibility passive equity mandates are now outside the CIV. However, the CIV has negotiated fee savings on behalf of the boroughs with mandates with Legal and General and are in discussion with other providers.

C. Global equity procurement

6. Active global equity is the largest single asset class across the London boroughs and the CIV is carrying out a most extensive procurement exercise. The current position is summarised as follows:

Lot	Strategy	Consultant	Number of submissions	Number to be interviewed
1	Core	Redington	44	7
1	Income	Mercer	15	6
1	Low volatility	Redington	21	6
1	Quality	Mercer	23	6
1	Trend growth	Mercer	6	4
1	Value	Redington	14	7
2	Emerging markets	Mercer	47	9
3	Sustainable	Redington	27	8
4	Incubator	Mercer / Redington	10	5

7. A timeline has been prepared for the sub-funds to become available in three blocks of three throughout 2017.

D. Harrow strategy

8. At their meeting on 21 June, so far as they were able, the Committee considered a strategy for the transfer of assets to the CIV over the next few years. Since there are many uncertainties concerning the future, a fully-developed strategy was impossible to establish. Nevertheless it had appeared feasible to envisage a substantial transfer of funds into the CIV in the next few months as follows:
    - Incorporation of the Longview active global equities mandate into the CIV
    - Availability of a global equity indexed sub-fund

9. Were the Council to make such transfers into these CIV sub-funds this is likely to involve over 45% of the Fund's assets which would represent substantial progress towards meeting the Government's aspirations.

10. At present it seems likely that a Longview sub-fund will become available in the next few months but it has become apparent that no global equity indexed sub-fund is likely to be available in the immediate future.

11. In view of the Fund's current strategy, with 33% of its investments in active global mandates, the results of the procurement process as described in paragraph 6 above will be of considerable interest. As submissions covering many different strategies are being considered it is unlikely that any further consideration can be given until the particular managers are selected.

E. CIV Business Plan

12. The CIV is currently updating its Business Plan but it appears that one of the most important issues will be a shortfall in its revenue stream.
13. The business model assumes two major revenue streams – management fees on assets under management and borough service fees. Current experience is that, since the CIV is receiving no income from passive equity funds and there has been slower than anticipated fund opening, there is a significant shortfall in income.
14. In its review of the Business Plan the CIV is obviously considering its revenue requirements and this could well involve a substantial increase in the borough service fees next year.

Financial Implications

15. Whilst the pooling initiatives will have a very significant impact on the costs and performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

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

Equalities implications

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

Council Priorities

18. The financial health of the Pension Fund 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:	11 November 2016		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers - None

REPORT FOR: Pension Fund Committee

Date of Meeting:	22 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 Committee of the *Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement* and discusses its implications.

FOR INFOMATION

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 Committee were 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 of the Regulations 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 Committee have considered a report entitled "The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016."

4. That report advises the Committee 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 Regulations 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 and its 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.

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	√	Director of Finance
Date:	8 November 2016		

Ward Councillors notified: NO

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

September 2016
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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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 regulationsto 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 Govenrment 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 Fund Committee

Date of Meeting:	22 November 2016
Subject:	Quarterly Trigger Monitoring Q3 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Quarterly Trigger Monitoring Q2 2016 (Aon Hewitt)

Section 1 – Summary and Recommendation

Summary

The Committee is requested to receive and consider 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.

Recommendation

That no de-risking actions are taken at this stage

Harrow COUNCIL
LONDON

Section 2 – Report

1. At their meeting on 8 September 2015 the Committee considered a report entitled "Options for Liability Driven Investments (LDI) Strategy. After discussion they resolved:

   That the status quo, a 13% Bond allocation invested in a combination of corporate bonds and index-linked gilts, be retained in relation to the Fund's Bond portfolio and that Aon Hewitt be requested to provide guidance on the catalysts that would trigger a move to an LDI Strategy with Option 2 being the preferred Option.

2. On 25 November 2015 the Committee considered a further report from Aon Hewitt which set out options for taking forward the consideration of an LDI Strategy. They resolved:

   That they should receive a short report on funding levels at the next meeting of the Committee and thereafter on a quarterly basis.

3. At their meeting on 9 March 2016 the Committee reiterated their request for quarterly reports and attached is the third of these for the period up to 30 September 2016. The Committee are invited to receive this report and presentation from Aon Hewitt and to accept the conclusion that "No de-risking actions are recommended at the current time."

Financial Implications

4. The consideration of strategy changes is an important part of the management of the Pension Fund investments and the performance of the Fund's investments plays an extremely important part in the financial standing of the Fund. The only financial implications arising from this report are those associated with not making any strategic changes and continuing to accept the current levels of risk.

Risk Management Implications

5. The risks arising from investment performance are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

7. 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 Date: 10 November 2016	✓	Director of Finance
Name: Noopur Talwar Date: 10 November 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**

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 ('the Fund')

Date:	22 November 2016
Prepared for:	Pension Fund Committee ('the Committee')
Prepared by:	Colin Cartwright Joseph Peach

Quarterly Trigger Monitoring - Q3 2016

Introduction

The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

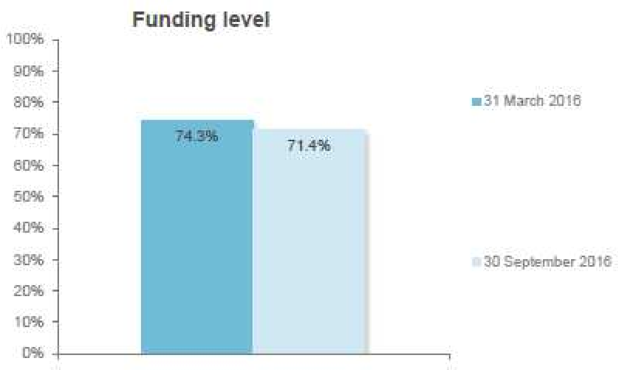
- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields

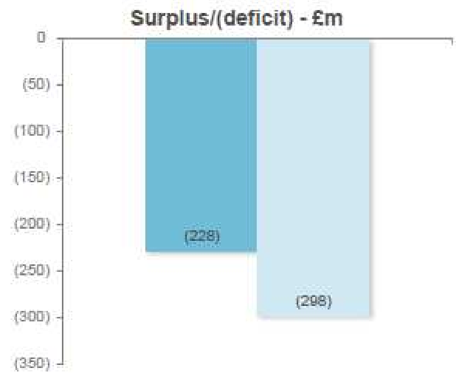
Funding level

The chart below shows the Fund's funding level at the end of the quarter compared with the level at the last actuarial valuation as at 31 March 2016.

The 30 September 2016 update is the first funding update to take account of the new formal funding valuation as at 31 March 2016.

The funding level as at 30 September 2016 was 71.4%, compared to 74.3% as at 31 March 2016 (and compared to 66.2% at the end of June 2016, on the previous funding valuation basis).



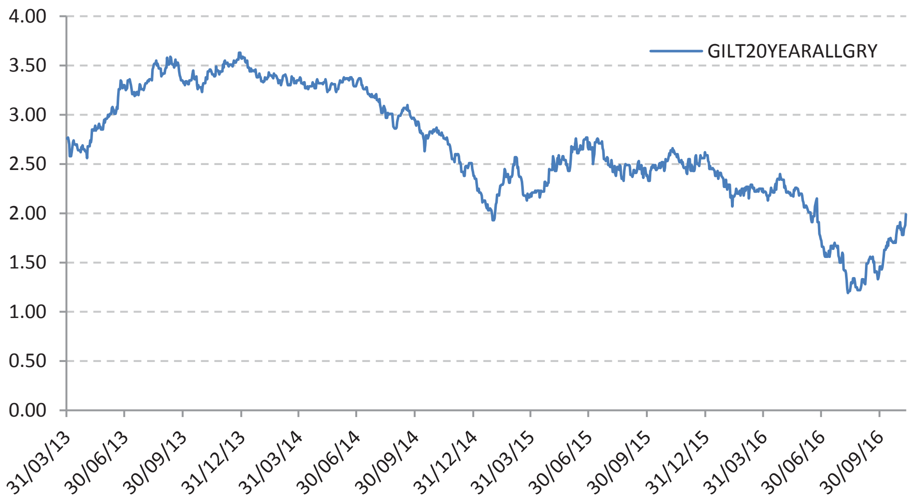


Source: Hymans Robertson

20 year spot yield

The chart below shows the movement of the 20 year spot yield since 31 March 2013 to 10 November 2016. Yields ended the third quarter of 2016 at 1.5% but had rebounded to c.2.0% by 10 November 2016.

20 year gilt spot yield



Aon Hewitt views on bond yields

The table below sets out Aon Hewitt's views versus the market in terms of spot and forward rates as at 7 November 2016.

Summary of market spot and forward rates versus Aon Hewitt's views

	7 November 2016	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.7%	-1.6%	-0.9%	+0.7%	-1.5%	-0.7%	+0.8%
Nominal	+1.9%	+2.2%	+2.5%	+0.3%	+2.4%	+2.8%	+0.4%
Breakeven*	+3.7%	+3.9%	+3.4%	-0.5%	+3.9%	+3.5%	-0.4%

* AH view on breakeven inflation includes an allowance for an inflation risk premium above expected inflation
Totals may not sum exactly due to rounding

As shown by these figures, we believe that rates will rise faster than the market is indicating. We also believe that the market is overstating breakeven inflation expectations.

Conclusion

There is no material improvement in funding level and long term bond yields remain at low levels, albeit that they have started to rise in recent times. Aon Hewitt believe that yields will rise faster than indicated by the market over the next three and five year period.

No de-risking actions are recommended at the current time.

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REPORT FOR: **Pension Fund Committee**

Date of Meeting:	22 November 2016
Subject:	Pension Fund Committee - Update on Regular Items
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No.
Wards affected:	All
Enclosures:	Appendix 1 – Fund Valuation and performance

Section 1 – Summary and Recommendations

Summary

This report updates the Committee on regular items as follows:

- Draft work programme on which the Committee's comments and agreement are requested.
- Performance of fund managers for previous periods
- Issues raised by Pension Board

Recommendation

That, subject to any comments the Committee wish to make, the work programme for the period up to March 2017 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
    - Draft work programme for 2016-17 and 2017-18 (Sub-section B)
    - Performance of fund managers for periods ended 30 September 2016 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2016-17 and 2017-18

2. Below is a draft for the Committee to consider as its programme of work for the remainder of 2016-17 and the whole of 2017-18.

7 March 2017

Update on regular items:
- Draft work programme for 2017-18
- Performance of fund managers for periods ended 31 December 2016
- Issues raised by Pension Board

Investment manager monitoring
Investment Strategy Statement
Property investment
Pooling and London Collective Investment Vehicle
Results of triennial valuation
Medium term cashflow
Funding Strategy Statement
Monitoring of operational controls at managers
Reporting breaches of the law policy
External audit plan
Training programme 2017-18
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

June 2017

Update on regular items:
- Draft work programme for 2017-18
- Performance of fund managers for periods ended 31 March 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Review of Governance Compliance Statement
Review of Communications Policy Statement
Review of risk register
Draft Annual Report and Financial Statements 2016-17
Performance Review 2016-17
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

September 2017

Update on regular items:

- Draft work programme for 2017-18
- Performance of fund managers for periods ended 30 June 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Management expenses
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

September 2017 – "Meet the Managers"

November 2017

Update on regular items:

- Draft work programme for 2017-18 and 2018-19
- Performance of fund managers for periods ended 30 September 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Audited Annual Report and Financial Statements 2016-17
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

March 2018

Update on regular items:

- Draft work programme for 2018-19
- Performance of fund managers for periods ended 31 December 2017
- Issues raised by Pension Board

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Monitoring of operational controls at managers
External Audit plan
Training programme 2018-19
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

3. The Committee will have the opportunity to update this programme at every meeting but are invited to comment on the draft above and agree it at this stage.

4. In addition to the Committee's work programme training opportunities will be offered for an hour prior to each meeting.

C Performance of Fund Managers for Periods Ended 30 September 2016

5. Attached is a table summarising the Fund valuation at 30 September 2016 and estimated fund performance for the year to date.

6. The Committee are aware that for periods up to 31 March 2016 performance data was provided by State Street Global Services but that this service is no longer available to the Fund. Over coming months, the ability of the Council to calculate its own performance data will increase but, for this report, the simple relationship of the valuations of the various investments compared to the baselines of 30 September 2015 and 31 March 2016 has been used. The Fund now subscribes to the service provided by Pension and Investment Consultants Limited but they do not yet have full coverage of the LGPS and the value of the service will need to be assessed over coming months.

7. The value of the Fund at the end of September 2016 had increased over the year to date from £661m to £743m (12.4%) .This increase has been due mainly to the large increases in the values of the equities portfolios with their global bias and substantial valuations in dollars, euros and yen all of which have appreciated in value against sterling. There has also been a substantial “value” increase and even higher percentage increase in the bonds portfolio. The Fund’s hedging strategy has, of course, mitigated some of the gains.

8. The one year return from September 2015 of 19%, increasing the value of the Fund from £624m to £743m, was the result mainly of outstanding returns from equities (27.4%) and bonds (26.8%) partly offset by minimal returns from the property and DGF portfolios..

D Meeting of Pension Board on 2 November 2016

9. The Pension Board met on 2 November. The agenda they considered is detailed below together with the most significant points raised by them.

Actuarial Valuation 2016

10. The Board received a presentation from the Actuary, Hymans Robertson, and raised queries with the Actuary and officers. They were particularly concerned that the Committee should take a view on risk and that it is their role, as the Board, to seek to ensure that unnecessary risks are not taken.

11. The Board noted the report.

Annual Report and Financial Statements for the Year Ended 31 March 2016

12. The Board received a report which presented the Annual Report and Financial Statements for the Year Ended 31 March 2016. The report included answers to queries previously raised by the Board when they considered the draft Report and Statements and the Annual Audit Letter received from the external auditor KPMG.

13. The Board were particularly concerned to see the recommendation of the auditor in respect of the inability of the Council to ensure that all Pension Fund receipts and payments are processed directly through the Pension Fund bank account. They understood the response given by the Treasury and Pension Fund Manager but emphasised their concern over the potential risk and governance implications They wished to support the Auditor's recommendation and asked that further efforts be made to comply with the recommendation.

14. The Board noted the report.

Status of Pension Board / Insurance Arrangements

15. The Board agreed that the Council should arrange insurance cover, with no excess, for the Board on the lines described in the report.

Draft Annual Report to Council 2016

16. The Board agreed the draft of the report they need to present to Council on 1 December 2016.

Review of Terms of Reference

17. The Board agreed that the Council should be asked to agree:
    - That the Board should meet at least twice each year up to a maximum of four times, preferably synchronised with the meetings of the Committee.
    - That a way should be sought eg by appointing two new members from next April, to ensure that the terms of office of each of the members do not end at the same time and that continuity is maintained.

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

18. The Board noted the new requirements and in particular Regulation 6 covering the Fund having a separate bank account.

Statement of Investment Principles / Investment Strategy Statement

19. The Board noted the new Guidance

Pension Fund Committee Meetings: 21 June 2016 and 6 September 2016

20. The Board noted the minutes of the two meetings of the Committee.

Performance Monitoring

21. The Board agreed to receive future information along the lines suggested in the report but asked officers to take into account comparable information provided to other local pension boards and relevant key performance indicators. They asked that a customer satisfaction survey be considered and that each member of the Board be sent a copy of the Annual Newsletter.

Compliance with the Pensions Regulator Code of Practice

22. The Board were satisfied with the format and content of the information provided and noted the report.

Knowledge and Understanding of Local Government Pension Scheme

23. The Board noted the report and requested that they be kept advised of learning opportunities available to them and that a record be maintained of training undertaken..

Work Programme

24. The Board agreed the work programme as described, with the addition of the "Breaches" policy. They asked that their next meeting be arranged for the afternoon of 7 March 2017 in order that they could provide comments on the actuarial valuation and contribution rates and the Funding Strategy Statement for consideration by the Pension Fund Committee at their meeting in the evening of that day.

25. The Board expressed the view that the Chair of the Committee be invited to attend their next meeting.

Financial Implications

26. There are several matters mentioned in this report, particularly asset allocation and manager performance which have significant financial implications but there are no direct financial implications arising from it as its main purpose is to provide an update on regular items.

Risk Management Implications

27. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

Equalities implications

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

Council Priorities

29. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 10 November 2016	✓	Director of Finance
Name: Noopur Talwar Date: 10 November 2016	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers - None

Appendix 1

Fund Valuation and Performance

30th September 2016

Asset Class	Value 31.03.2016 £'000	Value 30.09.2016 £'000	Movement YTD (Mar to Sep16)	Allocation 30.09.2016 %	Strategic Allocation %	Strategic Range %
Global Equities						
Longview (Hedged)	75,499	78,643	**4.16%**	11	11	
State Street	219,424	258,674	**17.89%**	35	31	
GMO	71,463	87,175	**21.99%**	11	10	
Oldfields	70,701	86,808	**22.78%**	11	10	
Total Global Equities	437,087	511,300				
Total Equities	**437,087**	**511,300**	**16.98%**	**68**	**62**	**58-68**
Private Equity						
Pantheon	20,571	20,587	**0.08%**			
Total Private Equity	20,571	20,587		3	5	4-6
Property						
Aviva	53,481	52,590	**-1.67%**			
Total - property	53,481	52,590		7	10	8-12
Bonds						
Blackrock - FI	69,401	83,044	**19.66%**	11	10	10
Blackrock - IL	17,577	21,110	**20.10%**	3	3	3
Total Bonds	86,978	104,154	**19.75%**	15	13	11-15
Alternatives						
Insight	27,071	28,318	**4.61%**	4	5	5
Standard Life	29,216	28,989	**-0.78%**	4	5	5
Total Alternatives	56,287	57,307	**1.81%**	8	10	8-12
Cash & NCA						
Cash Managers	44	11				
Cash NatWest	10,048	8,054				
Record passive currency hedge	-6,388	-12,272				
Cash Custodian (JP Morgan)	1,437	20				
Debtors and Creditors	1,306	1,007				
CIV Investment	150	150				
Total Net Current Assets	6,597	-3,032		0	0	
Total Assets	661,001	742,907	**12.39%**	100	100	

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