Pension Fund Committee AGENDA

DATE: **Tuesday 7 March 2017**

TIME: **6.30 pm**

VENUE: **Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY**

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	1. Kanti Rabadia
2. Antonio Weiss	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

Useful Information

Meeting details:

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Agenda publication date: Monday 27 February 2017

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 22 November 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, 2 March 2017. 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 (Pages 17 - 74)

Report of the Director of Finance.

8. FUNDING STRATEGY STATEMENT (Pages 75 - 120)

Report of the Director of Finance.

9. INVESTMENT STRATEGY STATEMENT (Pages 121 - 148)

Report of the Director of Finance.

10. LOCAL GOVERNMENT PENSION SCHEME POOLING ARRANGEMENTS UPDATE (Pages 149 - 188)

Report of the Director of Finance.

11. COMMUNICATIONS POLICY STATEMENT (Pages 189 - 218)

Report of the Director of Finance.

12. GOVERNANCE COMPLIANCE STATEMENT (Pages 219 - 236)

Report of the Director of Finance.

13. POLICY FOR REPORTING BREACHES OF THE LAW (Pages 237 - 252)

Report of the Director of Finance.

14. INFORMATION REPORT - PERFORMANCE MEASUREMENT SERVICES (Pages 253 - 262)

Report of the Director of Finance.

15. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS (Pages 263 - 268)

Report of the Director of Finance.

16. QUARTERLY TRIGGER MONITORING Q4 2016 (Pages 269 - 276)

Report of the Director of Finance.

17. INFORMATION REPORT - EXTERNAL AUDIT PLAN 2016-17 (Pages 277 - 300)

Report of the Director of Finance.

18. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS (Pages 301 - 328)

Report of the Director of Finance.

19. INFORMATION REPORT - ACTUARIAL AND BENEFITS SERVICES CONSULTANCY AND PENSION FUND INVESTMENT CONSULTANCY - CONTRACTS (Pages 329 - 388)

Report of the Director of Finance.

20. INDEPENDENT ADVISERS AND CO-OPTEE (Pages 389 - 394)

Report of the Director of Finance.

21. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

22. EXCLUSION OF PRESS AND PUBLIC

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

Agenda Item No	Title	Description of Exempt Information
23.	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).
24.	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).

AGENDA - PART II

23. PENSION DEATH GRANT PAYMENT (Pages 395 - 406)

Report of the Director of Finance.

24. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 407 - 476)

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.]

PENSION FUND COMMITTEE

MINUTES

22 NOVEMBER 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 A Iderman R Romain	Independent Adviser
Others:		Mr C Cartwright/ Mr J Peach	Council's Investment Advisers, Aon Hewitt
		Ms G Sefton	Council's Actuary, Hymans Robertson
		Mr B Menzies Wilson	Observer from KPMG, Council's External Auditor

* Denotes Member present

161. Attendance by Reserve Members

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

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

Howard Bluston, a non-voting co-optee on the Committee, 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 held at the offices of Aon Hewitt, the Committee's Investment Adviser. He would remain in the room whilst the items were discussed and make contributions as a non-voting co-optee on the Committee.

163. Minutes

RESOLVED: That the minutes of the meeting held on 6 September 2016, be taken as read and signed as a correct record.

164. Public Questions, Petitions and Deputations

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

RESOLVED ITEMS

165. Information Report - Actuarial Valuation 2016

The Committee received a presentation from Gemma Sefton, the Actuary, Hymans Robertson LLP, setting out the progress on the triennial valuation to date and, in particular, on the funding strategy review.

Gemma Sefton referred to her presentation slides and made the following key points:

- Harrow Council was ahead of other Councils in the reporting of its triennial valuation. The results of the triennial valuation had a major impact on the management of the Pension Fund and the contributions from the General Fund. She alluded to the outcomes of the submission of the results to the Scheme Advisory Board and referred to the Contribution Strategy Modelling which had been explained during the training session prior to the meeting. All scenarios would be considered;

- the employer consultation meetings had been well attended. Members of the Pension Board had also received presentations. Policy changes would be embedded in the draft Funding Strategy Statement which would be consulted upon. Thereafter, the proposed Funding Strategy together with the Valuation would be considered by the Committee at its March 2017 meeting;

- the statutory consultation process would continue and all representations received would be considered.

The Director of Finance responded to questions and advised that employer's contributions could not be used to finance non pension fund pressures such as redundancies on the basis that the government was the 'lender of the last resort'. There was a statutory duty upon the Council to ensure that the Pension Fund was properly funded. If the Council were to do so, the Pensions Regulator would be obliged to intervene.

An adviser asked if it was possible for the Council to issue a mini bond which could be purchased by the Pension Fund. He suggested that various mechanisms needed to be explored by the Pension Fund Committee by way of a report. The Director of Finance advised that this would increase the Council's borrowing which in turn would impact on the Revenue Account. She stressed that borrowing had to be prudent.

Gemma Sefton then made further points as follows:

- a risk based approach was being used to set the contributions. Colin Robertson, Independent Adviser, requested that the group be shown the assumptions underlying the modelling and this was agreed;

- approximately, there were 11,000 employers across the LGPS. All of those included in the Harrow Fund were being considered separately. Overall, flexibility was retained and all employers were tracked;

- in relation to the colleges, it was proposed that a risk-based approach was used in place of the current "stabilised" contribution rate approach;

- in relation to schools, consideration needed to be given to how academies, which were employers in their own right and not under local authority control, ought to be treated. Concern was expressed that academies were very risky. Gemma said that academies were immature with strong cashflows which mitigated the risks. It was proposed that academies were offered the contribution stability mechanism used for the Council;

- a communication would be issued to such schools on payment of individual rates, including a stabilised contribution. The DfE had not issued any direction in this regard but held a 'watch list' on how Councils were treating academies and the Council had been included on the 'watch list'.

The Director of Finance confirmed that the DfE's intention was to ensure that the academies were being treated fairly compared to local authority schools.

Gemma Sefton explained that should the Council face a legal challenge, it would be costly. She further explained that whatever contribution was agreed with each academy, the overall deficit would need to be paid off eventually. In concluding her presentation, Gemma Sefton referred to the slide on 'Policy Reminder – employers planning for exit' and the need for open discussion with employers to reach suitable outcomes.

The Chair thanked Gemma Sefton for her presentation.

RESOLVED: That the presentation be received and noted.

166. Information Report - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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

An officer introduced the report and updated the Committee on the results of the consultation. He added that not much had altered from the consultation draft and drew attention to the need for an Investment Strategy Statement, the powers of the Secretary of State powers and the powers to invest in collective investment schemes.

The Committee was assured that appropriate risk parameters could be set. The Investment Strategy Statement needed to be in place in April and would be considered at the March 2017 meeting of the Committee.

RESOLVED: That the report be noted.

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

Members received a report of the Director of Finance seeking their agreement to the Pension Fund Annual Report and Financial Statements for the year ending 31 March 2016.

An officer introduced the report and referred to the audit of the Pension Fund Accounts by KPMG, the Council's External Auditor, who had made relatively few comments to the Fund except in connection with the operation of the separate bank account. The officer said that, due to the issues with the commercial software package (SAP) used by the Council, it had not been possible to implement the recommendation from KPMG in its entirety. He pointed out that the Pension Board had recommended that every possible effort be made to correct this anomaly. However, the Council was of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail costs and uncertain risks which could not be justified currently.

Members queried the consequences of non-compliance and enquired about the cost associated with the change in software. The Director of Finance stated that the previous auditor had not raised this concern but assured Members that checks and balances were in place to ensure integrity of the system. Financial accounting records were also reconciled to help identify errors, irregularities and needed adjustments. They were not being dismissive of this issue and that KPMG had accepted the Council's response.

In response to additional questions, an officer stated that:

- employee/employer contributions would be paid into the Pension Fund bank account as early in the month as possible;

- the commentary in the "Fund Performance" section of the Annual report would be expanded to 2016-17;

- in the table listing employers, Jubilee Academy should be described as a "scheduled body" rather than a "transferee admission body";

- the Communications Policy Statement was currently being updated for submission to the next meeting of the Committee and would include an updated schedule of all employers.

RESOLVED: That the Annual Report and Financial Statements for the year ending 31 March 2016 be agreed.

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

The Committee received a report from the Director of Finance on the development of the pooling arrangements and the London Collective Investment Vehicle (CIV), the progress in global equity procurement and concerns over the revenue stream of the CIV. The Committee also received an additional paper, 'Global Equities Survey', which was not available at the time the agenda was printed and circulated as it was received on 20 November 2016. The additional paper required consideration on the basis that an immediate response was required.

An officer introduced the Global Equities Survey issued by the CIV, which was to be used to assess which global equity strategies they should seek to make available first. He outlined his draft submission and also the contributions already received, as follows:

- survey, paragraph 5 – to take the 6-9 months option as the desire was to switch into CIV fund sooner rather than later;

- survey, paragraph 6 – Investor Briefing by Manager be given a higher priority;

- survey, paragraph 2 – some interest should be expressed in "Core".

The officer referred to the CIV Business Plan and the expected shortfall in the revenue stream. It was likely that a substantial increase in the borough service fees could be requested from the Councils next year.

Colin Robertson, Independent Adviser, reported that at a meeting of Independent Advisers the same day, the following points had become evident:

- the London CIV was different to other pools. It was more of a "platform" offering a choice of managers to each LGPS whereas the other pools determined the managers in each asset class for all LGPS in the pool;

- since the departure of the former Chancellor of Exchequer, George Osborne MP, the government's timetable appeared more relaxed.

RESOLVED: That the report be noted and the survey be amended to include the views expressed in the preamble to this minute.

169. Information Report - Statement of Investment Principles / Investment Strategy Statement

The Committee received a report of the Director of Finance, which advised members of the 'Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement', including its implications.

An officer introduced the report and informed members that, under the Local Government Pension Scheme (Management of Funds) Regulations 2016, the Committee was required to produce an Investment Strategy Statement for the management of the Fund's investments and to consult widely. He added that there was a great deal of interest in environmental, social and governance aspects and the CIV had indicated that it would be willing to assist with the principles that ought to be included in the Statement.

The Committee noted that:

- a draft Statement would be circulated to Members in December 2016 and consulted on widely thereafter prior to the final Statement being submitted to the Committee in March 2017;

- the advisers and Aon Hewitt would provide with Aon Hewitt providing strategic investment modelling;

- clarification relating to paragraph 7 (4) of the report would be provided to the Chair;

- the approach to pooling and the proportion of assets that would be invested through the pool, including the structure and governance arrangements and the mechanisms by which the authority could hold the pool to account, would be included, as suggested by Colin Robertson.

RESOLVED: That the report be noted.

170. Quarterly Trigger Monitoring Q3 2016

The Committee received 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.

Colin Cartwright, Aon Hewitt, outlined the purpose of the report which was to provide an update on the status of three de-risking triggers which the Committee had agreed to monitor on a quarterly basis. The three triggers related to:

- Fund's funding level – while there was a material improvement over the quarter, the funding level was still lower than at 31 March 2016;

- Yield triggers based on the 20-year spot yield – this had risen sharply since the end of the quarter but remained lower than for much of 2016;

- Aon Hewitt's view of bond yields – it was expected that these would rise faster than indicated by the financial markets.

He did not recommend de-risking.

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

171. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance setting out the draft Work Programme, performance of Fund Managers over previous periods and the issues raised by the Pension Board. The Committee also received an updated appendix, 'Fund Valuation and Performance – 30 September and 31 October 2016', which was not available at the time the agenda was printed and circulated and which required consideration on the basis that the exposures to the different asset classes had moved considerably.

An officer introduced the report and made the following pertinent points prior to inviting comments from members:

- a matrix of training opportunities would be circulated separately;

- the decision relating to the employer's contribution would rest with the Section 151 Officer having considered the advice of the Committee and the Council's Actuary, Hymans Robertson. However, the position in relation to who takes the final decision was being sought from HB Public Law;

- for reasons of continuity, the Pension Board would be seeking additional members to serve on the Board. This would be subject to the agreement of full Council;

- that the Fund Valuation and Performance, 30 September and 31 October 2016, circulated with the supplemental agenda, was key.

Colin Robertson, adviser, stated that the performance of the Fund Managers against the benchmark set ought to have been included.

The Committee discussed how the proportion of the Fund held in equities should be brought back within the approved range. This included both the extent to which equities should be sold and what should be done with the sale proceeds. Some of the options which were considered were:

- hold enough cash to cover current hedging liabilities;

- hold cash greater than required to cover current hedging liabilities which would be available for further investment, potentially in property opportunities;

- invest in Diversified Growth Funds as the current holding was 2% below benchmark;

- transfer some sale proceeds to the currently underweight property mandate..

The Committee expressed differing views and, following further advice from Colin Cartwright, it was

RESOLVED: That

(1) the Work Programme for the period up to March 2017 be agreed;

(2) the holding of equities be reduced by £20m from the State Street holding and split £10m to cover hedging liabilities and £10m to be invested with the current property manager.

172. Exclusion of Press and Public

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

Item	Title	Reason
16/17/18.	Staff Transfer Arrangements/Investment Manager Monitoring/Pension Death Grant Payment	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

173. Staff Transfer Arrangements

The Committee received a confidential report, which set out the current position in respect of negotiations with two local authorities over the transfer of Pension Fund liabilities and assets arising from the transfer of staff, including possible settlements. The report also advised the Committee of the transfer to the Council of procurement staff from another local authority.

The Director of Finance referred to shortfalls and how these would be resolved subject to the advice of the Council's actuary, Hyman's Robertson. It was moved and seconded that any decision should include reference to paragraph 9 of the report.

RESOLVED: That the recommendation in the report be agreed, subject to the inclusion of paragraph 9 of the report in any agreement on the sums on the dates of cash transfers in respect of staff transfers.

174. 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" or "Not Rated",, except Pantheon who, as a private equity manager was now rated by different criteria and had received a range of ratings.

Colin Cartwright, Aon Hewitt, introduced the report and alluded the volatility of the financial markets and the performance of the Fund Managers.

He explained that clarity on the policies of the USA President-elect was a key consideration to how the financial markets would react. Advisers to the Committee asked if it would be prudent to invest profits in property, particularly if the financial markets reacted adversely and created opportunities in the property market. It was suggested that a further report from Aon Hewitt in this regard was required prior to decisions being taken.

He outlined the performance of Fund Managers and it was suggested that the Committee ought to be given an opportunity to meet Standard Life either at the March 2017 meeting of the Committee or at 'Meet the Manager' session in September 2017.

RESOLVED: That the report be noted.

175. Pension Death Grant Payment

The Committee received a confidential report, which set out details of a request for a death grant payment.

The Chair alluded to the additional advice received from officers since the report was written and, following detailed discussion, upon the understanding that further discussions would take place between officers and the Chair/Opposition Member, it was

RESOLVED: That a decision on this matter be deferred to the next meeting of the Committee.

(Note: The meeting, having commenced at 6.31 pm, closed at 9.24 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	**Information Report** - Actuarial Valuation
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1: Hymans Robertson LLP – 2016 Valuation Report including Rates and Adjustments Certificate Appendix 2: 2016 Actuarial Valuation: LB Harrow Valuation Results and Contribution Strategy

Section 1 – Summary

This report advises the Committee of the receipt by the Council of the triennial Actuarial Valuation Report and the Council's employer's Valuation Results and Contribution Strategy produced by the Council's Actuary Hymans Robertson LLP.

FOR INFORMATION

Section 2 – Report

1. At their meeting on 9 March 2016 the Committee were reminded of the requirement of Regulation 62 of the Local Government Pension Scheme Regulations 2013 that every three years an actuarial valuation of the Pension Fund must be carried out. The last valuation had been carried out in 2013 with the results implemented from 1 April 2014. Another valuation was due and the Council had appointed the Actuary, Hymans Robertson LLP, as currently led by the partner, Ms Gemma Sefton, to carry out the work.

2. Some of the main features of the Regulations are as follows:

   An administering authority must obtain—
   (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
   (b) a report by an actuary in respect of the valuation; and
   (c) a rates and adjustments certificate prepared by an actuary.

   Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

   The actuary must have regard to—
   (a) the existing and prospective liabilities arising from circumstances common to [the employers];
   (b) the desirability of maintaining as nearly constant a common rate as possible;
   (c) the current version of the administering authority's funding strategy statement; and
   (d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

3. At each of their subsequent meetings the Committee have received presentations from the Actuary covering progress on the valuation and, specifically, valuation assumptions, initial results, funding strategy and a risk based approach to setting contribution rates. The Committee has commented on the various issues raised.

4. As required by the Regulations, Appendix 1 comprises the Valuation Report including the Rates and Adjustments Certificate.

5. Appendix 2 comprises the Valuation Results and Contribution Strategy for the Council as the Fund's main employer.

6. As previously advised to the Committee the summary on page 4 of Appendix 1 indicates that as at 31 March 2016 the Fund was in deficit by £228m (£234m as at 31 March 2013) with a funding level of 74% (70% as at 31 March 2013). The improvement in funding level is due mainly to the strong investment performance over the last three years and a favourable membership experience partly offset by a reduction in the future expected investment return and the loss of notional interest arising from the deficit.

7. As part of the valuation work the Fund has commissioned from the Actuary an asset liability modelling exercise to inform the contribution rate policy for long term secure employers in order to make a risk based decision to stabilise changes in the employer contribution rate.

8. The Regulations under which the Fund is administered allow, under specific circumstances, for adjustments to be made to the rates calculated to reflect the needs for affordability and stability of employer contributions. These arrangements are detailed in paragraph 3.3 note (b) of both the Council's current Funding Strategy Statement and the draft revised Funding Strategy Statement being considered by the Committee elsewhere on the agenda. In accordance with the draft Statement the arrangements only apply to the Council itself and the academies.

9. In accordance with the Regulations the Council has balanced its responsibilities as Administering Authority of the Pension Fund and its largest employer with its overall financial position. It has recognised the importance of increasing the strength of the Pension Fund and has agreed to increase its contribution to the Fund by approximately £1m in 2017-18 with similar increases following in 2018-19 and 2019-20.

10. In order to protect the Fund from any future reduction in payroll, these contribution rates have been translated into a percentage of pay element for future service costs and a cash payment for deficit recovery. These rates are included in the draft Rates and Adjustments Certificate and in Appendix 2.

Financial Implications

11. The additional annual contributions of £1m in 2018-19 and the two subsequent years has been built into the Council's MTFS Strategy 2017/18 – 2019/20 which was taken to Full Council on 24 February 2107.

Risk Management Implications

12. Risks arising in relation to the actuarial valuation are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

14. The financial health of the Pension Fund and the Council's employer's contribution directly affects the resources available for the Council's other priorities.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance
Date:	24 February 2017		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers – None.

London Borough of Harrow Pension Fund

2016 Actuarial Valuation
Valuation Report

February 2017

Gemma Sefton

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Contents

1 Executive summary

We have carried out an actuarial valuation of the London Borough of Harrow Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	786	889
Market Value of Assets	552	661
Surplus / (Deficit)	(234)	(228)
Funding Level	**70%**	**74%**

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance and favourable membership experience over the inter-valuation period. The liabilities have increased due to a reduction in the future expected investment return, although this has partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates as set out in the Rates and Adjustments certificate (see appendix H). The Secondary Contributions are the sum of the individual employer Secondary Contributions as per the Rates and Adjustments certificate. The whole fund Primary and Secondary Contribution rates have been calculated in accordance with the Regulations and CIPFA guidance.

Contribution Rates	31 March 2016
Primary Rate*	20.3%
Secondary Rate*	£5,096,000
Total Contribution Rate	20.3% plus £5,096,000
Employee contribution rate	6.3%
Expenses	1.2%

*At the time of writing (February 2017), a small number of employers' contribution rates are still being finalised. The whole fund Primary and Secondary contributions have been calculated based on provisional contribution rates. Please see the Rates and Adjustments certificate for further details (Appendix H).

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen and employer contributions targeted to fund the deficit have increased.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**. Introduction

We have carried out an actuarial valuation of the London Borough of Harrow Pension Fund (“the Fund”) as at 31 March 2016 under Regulation 62 of The Local Government Pension Scheme Regulations 2013 (“the Regulations”). The purpose of the valuation is to assess the value of the assets and liabilities of the Fund as at 31 March 2016 and to calculate the required rate of employers’ contributions to the Fund for the period from 1 April 2017 to 31 March 2020.

Valuation Report

This report records the high level outcomes of the actuarial valuation as at 31 March 2016. The valuation report is prepared by the actuary to the Fund and is addressed to London Borough of Harrow as the Administering Authority to the Fund.

Component reports

This document is part of an “aggregate” report, i.e. it is the culmination of various “component” reports and discussions, in particular:

- Correspondence relating to data including the Data Report dated 10 August 2016;
- The Initial Results report (dated 10 August 2016) which outlined the whole fund results);
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 11 August 2016;
- The contribution modelling carried out for employers, as detailed in our reports and presentations to the Administering Authority of 13 October 2016, 26 October 2016 and 30 November 2016
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

2 Valuation Approach

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process the Fund reviews its funding strategy to ensure that an appropriate contribution plan and investment strategy is in place.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a funding strategy to meet it.

Setting the funding strategy for an open defined benefit pension fund such as London Borough of Harrow Pension Fund is complex. Firstly, the time period is very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more and it remains open to new joiners and accrual of benefits. Secondly, the LGPS remains a defined benefit scheme so there are significant uncertainties in the final cost of the benefits to be paid. Finally, in order to reduce employer costs, London Borough of Harrow Pension Fund invests in a return seeking investment strategy which can result in high levels of asset volatility.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to set the pace of funding in conjunction with the Administering Authority. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

The valuation approach adopted recognises the uncertainties and risks posed to funding by the factors discussed above and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon. More detail on this risk based approach to setting contribution rates can be found in **Appendix C**.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison of the funding position at the valuation date against the funding target. The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The assumptions used in the assessment of the funding position at the valuation date are detailed in the next section.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target.

Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the "primary rate".

The primary rates for employers are determined with the aim of meeting the funding target in respect of these new benefits at the end of the set time horizon with an appropriate likelihood of success. The primary rate will depend on the profile of the membership (amongst other factors). For example, the rate is higher for older members as there is less time to earn investment returns before the member's pension comes into payment.

The methodology for calculating the primary rate will also depend on whether an employer is open or closed to new entrants. A closed employer will have a higher rate as we must allow for the consequent gradual ageing of the workforce.

For the reasons outlined above regarding the uncertainty of the future, there is no guarantee that the amount paid for the primary rate will be sufficient to meet the cost of the benefits that accrue. Similarly, there is no guarantee that the secondary contributions will result in a 100% funding level at the end of the time horizon. Further discussion of this uncertainty is set out in **Appendix C**.

3 Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service).

Broadly speaking, our assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid. In this valuation of the Fund, we use a single agreed set of demographic assumptions which is set out below and in more detail in **Appendix E**.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money by making an assumption about the return on the Fund's investments in the future.

For measuring the funding position, the liabilities of the Fund are reported on a single constant set of financial assumptions about the future, based on financial market data as at 31 March 2016.

However, when we assess the required employer contributions to meet the funding target, we use a model that calculates the contributions required under 5000 different possible future economic scenarios. Under these 5000 different economic scenarios, key financial assumptions about pension increases and Fund investment returns vary across a wide range. More information about these types of assumptions is set out in **Appendix F**.

Financial assumptions

Discount rate

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date. In setting the discount rate the Fund is determining the balance between the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

For a funding valuation such as this, the discount rate is required by Regulations to incorporate a degree of prudence. The discount rate is therefore set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

There has been a downward shift in the expected returns on many asset classes held by the Fund since the 2013 valuation. Following modelling, analysis and discussion reported in the "2016 valuation – Asset Outperformance Assumption (AOA)" document dated 3 June 2016, the Fund is satisfied that an AOA of 1.6% p.a. is a prudent assumption for the purposes of this valuation.

Price inflation / pension increases

Pension (both in payment and deferment) benefit increases and the revaluation of career-average earnings are in line with Consumer Price Index (CPI) inflation. As there continues to be no deep market for CPI linked financial instruments, the Fund derives the expected level of future CPI with reference to the Retail Price Index (RPI).

Due to further analysis of the CPI since 2013, the Fund expects the average long term difference between Retail Price Index (RPI) and CPI to be 1.0% p.a. compared with 0.8% p.a. at the 2013 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, the Fund continues to adopt a similar approach.

Salary increases

Due to the change to a CARE scheme from 2014, there is now a closed group of membership in the Fund with benefits linked to final salary. The run-off of this final salary linked liability was modelled, taking into account the short-term restrictions in public sector pay growth.

The results of this modelling and analysis were reported in the report “London Borough of Harrow Pension Fund: 2016 Valuation assumptions” dated 9 June 2016. Following discussion, the Fund set a salary growth assumption of RPI -0.7%.

This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member’s age and class. Please see **Appendix E**.

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.6%*	1.6%**
Discount rate	**4.6%**	**3.8%**
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)**
Benefit increase assumption (CPI)	**2.1%**	**2.1%**
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.7%)**
Salary increase assumption	**3.8%**	**2.4%**

**Arithmetic addition*
***Geometric addition*

Demographic assumptions

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

	31 March 2013	31 March 2016
Male		
Pensioners	22.1 years	22.2 years
Non-pensioners	24.5 years	24 years
Female		
Pensioners	24.4 years	24.4 years
Non-pensioners	26.9 years	26.4 years

Further details of the longevity assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience.

Details of the other demographic assumptions adopted by the Fund are set out in **Appendix E**.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate.

The actuarial assumptions underlying the Scheme Advisory Board's Key Performance Indicators are viewed as best estimate. Using these best estimate assumptions, the assessed funding position as at 31 March 2016 would have been 91%.

Assets

We have taken the assets of the Fund into account at their market value as informed to us by the Administering Authority. We have also included an allowance for the expected future payments in respect of early retirement strain and augmentation costs granted prior to the valuation date in the value of assets, for consistency with the liabilities and with the previous valuation. We have calculated the total value of these expected future payments to be £0.7m at 31 March 2016.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main valuation objectives are to hold sufficient assets in the Fund to meet the assessed cost of members' accrued benefits on the target funding basis ("the Funding Objective") and to set employer contributions which ensure both the long term solvency and the long term cost efficiency of Fund by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon ("the Contribution Objective"). A secondary objective is to maintain where possible relatively stable employer contribution rates.

Funding Position Relative to Funding Target

In assessing the extent to which the Funding Objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report for the target funding basis and the funding method also earlier described. The table below compares the value of the assets and liabilities at 31 March 2016. The 31 March 2013 results are also shown for reference.

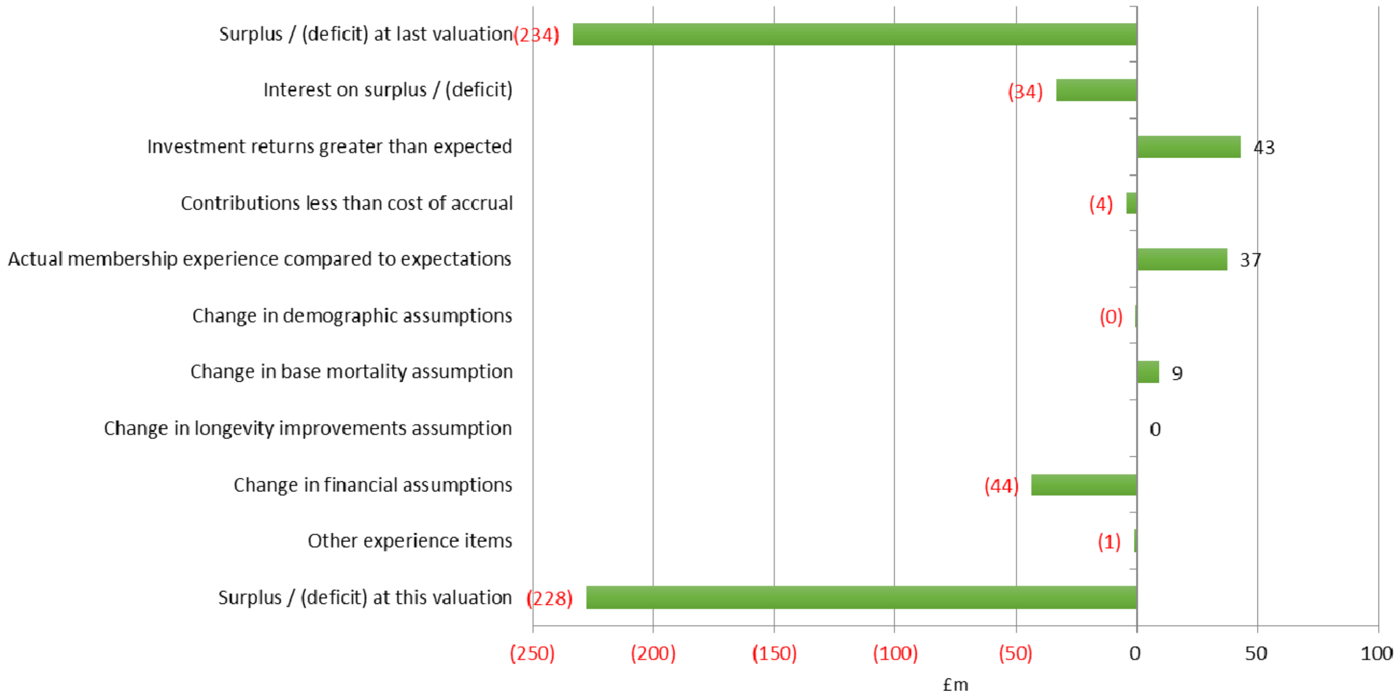
A funding level of 100% would correspond to the Funding Objective being met at the valuation date.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	293	275
Deferred Pensioners	133	171
Pensioners	360	444
Total Liabilities	**786**	**889**
Assets	**552**	**661**
Surplus / (Deficit)	**(234)**	**(228)**
Funding Level	**70%**	**74%**

The Funding Objective was not met: there was a shortfall of assets relative to the assessed cost of members' benefits on the target funding basis of £228m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the changes in the funding position between 31 March 2013 and 31 March 2016:



Further comments on some of the items in this chart:

- There is an interest cost of £34m. This is broadly three years of compound interest at 4.6% p.a. applied to the previous valuation deficit of £234m (and can be thought of as the investment return that would have been achieved on the extra assets the Fund would have held if fully funded).
- Investment returns being higher than expected since 2013 lead to a gain of £43m. This is roughly the difference between the actual three-year return (22.2%) and expected three-year return (14.4%) applied to the whole fund assets from the previous valuation of £552m, with a further allowance made for cashflows during the period.
- Contributions being less than the cost of accrual lead to a loss of £4m.
- The membership experience of the Fund has differed to the assumptions made at the 2013 valuation. The table below summarises the significant factors that underlie these differences:

	Expected	Actual	Difference	Impact
Pre-retirement experience				
Early leavers	3,382	2,098	(1,284)	Positive**
Ill-health retirements*	95	31	(64)	Positive
Salary increases (p.a.)	4.2%	2.1%	(2.2%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.5%	1.3%	(1.2%)	Positive
Pensions ceasing (£m)	1.8	1.5	(0.3)	Negative

*Tier 1 and 2 ill health retirements only.

**The impact of more withdrawals than expected depends on the age and liability distribution of withdrawing members. Although in member terms there were fewer than expected, the impact on the funding position was slightly positive to the Fund.

- The impact of membership experience being different to expectations has been a gain of £37m. This includes a loss of £5m as a result of fewer members than expected having opted into the 50:50 section of the scheme.
- The impact of the change in demographic assumptions has been broadly neutral.
- The change in mortality assumptions (baseline and improvements) has given rise to a gain of £9m.
- The change in financial conditions since the previous valuation has led to a loss of £44m. This is due to a decrease in the real discount rate between 2013 and 2016. This has partially been offset by the 0.2% p.a. increase in the assumption of the gap between RPI and CPI and a reduction in the expected future salary growth for benefits linked to final salary.
- Other experience items, such as changes in the membership data, have served to increase the deficit at this valuation by around £1m.

Employer Contribution Rates

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon. These rates have been assessed using a financial model that assesses the funding outcome for the employer under 5000 different possible future economic scenarios where the key financial assumptions about pension increases and Fund investment returns vary. The employer contribution rates have been set to achieve the funding target over the agreed time horizon and with the appropriate likelihood of success. The time horizon and the likelihood parameters vary by employer according to each employer's characteristics. These parameters are set out in the Funding Strategy Statement and have been communicated to employers. More information about the methodology used to calculate the contribution rates is set out in **Appendix C**.

The employer contributions payable from 1 April 2017 are given in **Appendix H**, and these have been devised in line with the Funding Strategy Statement: see **section 6**.

The table below summarises the whole fund Primary and Secondary Contribution rates at this valuation. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates as set out in the Rates and Adjustments certificate (see appendix H). The Secondary Contributions are the sum of the individual employer Secondary Contributions as per the Rates and Adjustments certificate. The whole fund Primary and Secondary Contribution rates have been calculated in accordance with the Regulations and CIPFA guidance.

	31 March 2016
Contribution Rates	
Primary Rate*	20.3%
Secondary Contributions*	£5,096,000
Total Contribution Rate	20.3% plus £5,096,000
Employee contribution rate	6.3%
Expenses	1.2%

*At the time of writing (February 2017), a small number of employers' contribution rates are still being finalised. The whole fund Primary and Secondary contributions have been calculated based on provisional contribution rates. Please see the Rates and Adjustments certificate for further details (Appendix H).

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2016 into the Fund.

The table below shows the Fund "Common Contribution rate' as at 31 March 2013 for information purposes. **Although note that the change in regulatory regime and guidance on contribution rates means that a direct comparison to the whole fund rate at 2016 is not appropriate.**

Contribution Rates	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	21.4%
Past Service Adjustment	13.0%
Total employer contribution rate (incl. expenses)	**34.4%**
Employee contribution rate	6.4%
Expenses	0.8%

6 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2016.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match the assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation past service funding position results.

Sensitivity of past service funding position results to changes in assumptions

The table below gives an indication of the sensitivity of the funding position to small changes in two of the main financial assumptions used:

Discount Rates	Pension Increases & CARE revaluation			
	1.9%	2.1%	2.3%	
4.0%	836	860	886	Liabilities(£m)
	661	661	661	Assets(£m)
	(175)	(200)	(225)	(Deficit)(£m)
	79%	77%	75%	Funding Level
3.8%	864	889	915	Liabilities(£m)
	661	661	661	Assets(£m)
	(203)	(228)	(254)	(Deficit)(£m)
	77%	74%	72%	Funding Level
3.6%	892	919	946	Liabilities(£m)
	661	661	661	Assets(£m)
	(231)	(258)	(285)	(Deficit)(£m)
	74%	72%	70%	Funding Level

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2016 are affected by adopting different longevity assumptions.

	Peaked improvements	Non-peaked improvements
	(£m)	(£m)
Liabilities	889	910
Assets	661	661
(Deficit)	(228)	(249)
Funding Level	**74%**	**73%**

The "further improvements" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid-1930s will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results.

Note that the tables show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

Sensitivity of contribution rates to changes in assumptions

The employer contribution rates are dependent on a number of factors including the membership profile, current financial conditions, the outlook for future financial conditions, and demographic trends such as longevity. Changes in each of these factors can have a material impact on the contribution rates (both primary and secondary rates). We have not sought to quantify the impact of differences in the assumptions because of the complex interactions between them.

Investment risk

The Fund holds some of its assets in return seeking assets such as equities to help reduce employers' costs. However, these types of investments can result in high levels of asset volatility. Therefore, there is a risk that future investment returns are below expectations and the funding target is not met. This will require additional contributions from employers to fund any deficit.

Whilst the Fund takes steps to ensure that the level of investment risk is managed and monitored via strategy reviews and performance monitoring, it can never be fully mitigated.

Regulatory risk

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position.

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants) and ultimately their ability to continue to pay contributions or make good future funding deficits.
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring the take up of options available to members (e.g. 50:50 scheme, commutation) to identify if actual experience differs from that assumed and understand the impact on the funding strategy.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.
- Regularly reviewing the Fund's membership data to ensure it is complete, up to date and accurate.

7 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Investment Strategy Statement (e.g. the discount rate must be consistent with the Fund's asset strategy)
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the information the Fund holds about the participating employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2019. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible revisions to funding plans.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any funding shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 64 of the Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

8 Reliances and limitations

Scope

This document has been requested by and is provided to London Borough of Harrow in its capacity as Administering Authority to the London Borough of Harrow Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 62 of the Regulations. None of the figures should be used for accounting purposes (e.g. under FRS102 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 64).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of 10 August 2016. However, if any material issues with the data provided are identified at a later date, then the results stated in this report may change.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Gemma Sefton

Fellow of the Institute and Faculty of Actuaries

23 February 2017

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary (final salary and/or career average) and pensionable service (for service before 1 April 2014) according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2017.

Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This should not be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		N/A

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.	Scheme membership from 1 April 2008: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI. Lump Sum Retirement Grant - none except by commutation of pension.
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 55 with employer's consent. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age NRA where no likelihood of undertaking any gainful employment prior to age NRA; 25% of prospective membership to age NRA where likelihood of obtaining gainful employment after 3 years of leaving, but before age NRA; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	From 6th of April 2016, the Fund will no longer be contracted out of the State Second Pension. Until that date, the benefits payable to each member were guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% employee contribution rate.

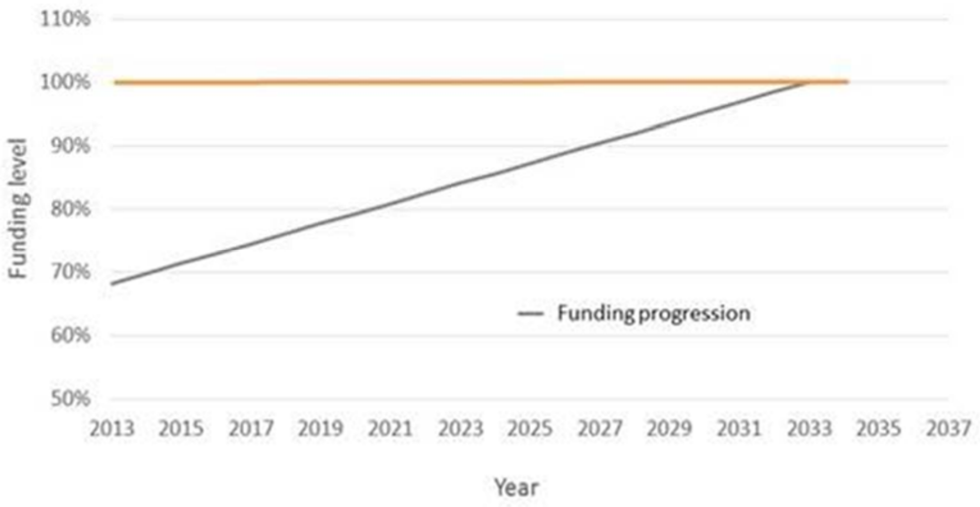
Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2017.

Appendix C: Risk based approach to setting contribution rates

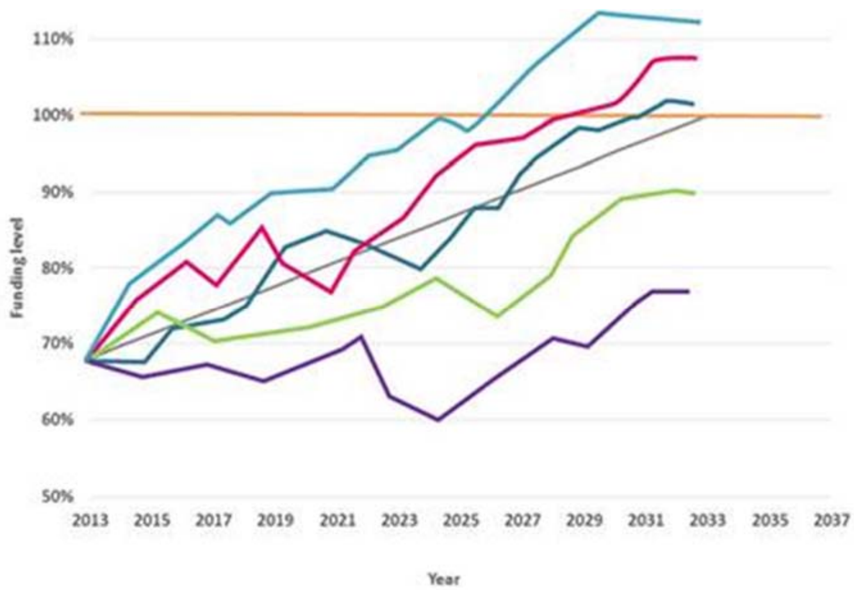
At previous valuations we have set contribution rates by calculating them using a single set of assumptions about the future economic conditions (a 'deterministic' method). By using this deterministic method, there is an implicit assumption that the future will follow expectations (i.e. the financial assumptions used in the calculation) and the employer will return to full funding via one 'journey'. This approach is summarised in the illustrative chart below.



However, pension funding is uncertain as:

- the Fund's assets are invested in volatile financial markets and therefore they go up and down in value; and
- the pension benefits are linked to inflation which again can go up and down in value over time.

One single set of assumptions are very unlikely to actually match what happens, and therefore, the funding plan originally set out will not evolve in line with the single journey shown above. The actual evolution of the funding position could be one of many different 'journeys', and a sample of these are given below.



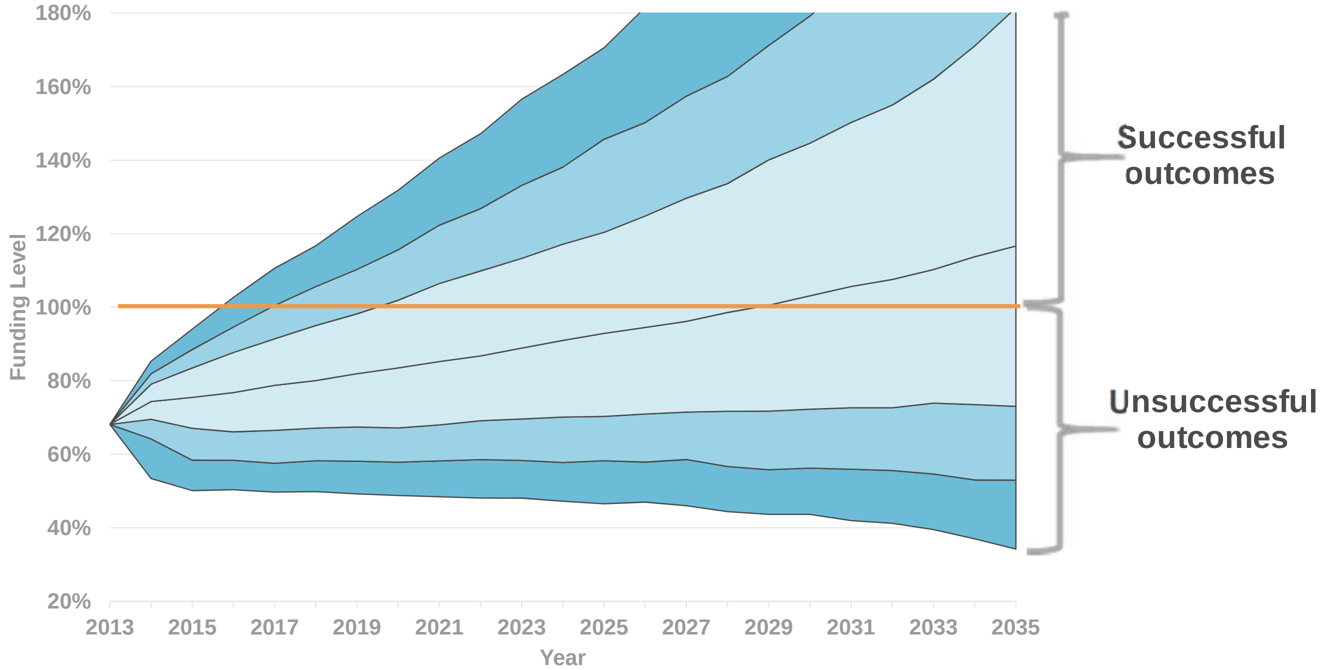
The inherent uncertainty in pension funding creates a risk that a funding plan will not be a success i.e. the funding target will not be reached over the agreed time period.

This risk can never be fully mitigated whilst invested in volatile assets and providing inflation linked benefits, however the main disadvantage of the traditional deterministic method is that it does not allow the Fund, employer, regulators or actuary to assess and understand the risk associated with the proposed funding plan and the likelihood of its success, or otherwise.

Risk Based Approach

At this valuation, we have adopted a ‘risk based’ approach when setting contribution rates. This approach considers thousands of simulations (or ‘journeys’) to be projected of how each employer’s assets and liabilities may evolve over the future until we have a distribution of funding outcomes (ratio of assets to liabilities). Each simulation represents a different possible journey of how the assets and liabilities could evolve and they will vary due to assumptions about investment returns, inflation and other financial factors. Further technical detail about the methodology underlying these projections is set out in **Appendix F**.

Once we have a sufficient number of outcomes to form a statistically credible distribution (we use 5,000 outcomes), we can examine what level of contribution rate gives an appropriate likelihood of meeting an employer’s funding target (usually a 100% funding level) within the agreed timeframe (‘time horizon’) (i.e. a sufficient number of successful outcomes). The picture below shows a sample distribution of outcomes for an employer.



Having this ‘funnel’ of outcomes allows the Fund to understand the likelihood of the actual outcome being higher or lower than a certain level. For example, there is 2/3rds chance the funding level will be somewhere within the light shaded area, and there is a 1 in 100 chance that the funding level will be outside the funnel altogether. Using this ‘probability distribution’, we then set a contribution rate that leads to a certain amount of funding outcomes being successful (e.g. 2/3rds).

Further detail on the likelihoods used in employer’s funding plans is set out in the Fund’s Funding Strategy Statement.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate data report.

Membership data – whole fund

Employee members

	31 March 2013		31 March 2016		
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)	CARE Pot (£000)
Total employee membership	5,452	96,694	5,535	101,578	3,690

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2013		31 March 2016	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	6,110	7,279	6,909	9,138

The figures above also include any “frozen refunds” and “undecided leavers” members at the valuation date.

Current pensioners, spouses and children

	31 March 2013		31 March 2016	
	Number	Pension (£000)	Number	Pension (£000)
Members	4,275	21,343	4,804	25,168
Dependants	570	1,369	594	2,021
Children	47	66	35	59
Total pensioner members	**4,892**	**22,778**	**5,433**	**27,248**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2013	2016	2013	2016
Employees (CARE)	-	50.8	8.5	8.7
Employees (Final Salary)	52.6	53.1		
Deferred Pensioners	50.3	51.1	-	-
Pensioners	67.1	67.8	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Assets at 31 March 2016

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2016 and 31 March 2013 is as follows:

Asset class	31 March 2013 (Market Value) (£000)	Allocation %	31 March 2016 (Market Value) (£000)	Allocation %
UK equities	143	26%	0	0%
UK fixed interest gilts	0	0%	69	11%
UK corporate bonds	58	10%	0	0%
UK index-linked gilts	15	3%	18	3%
Overseas equities	274	50%	508	77%
Overseas bonds	0	0%	0	0%
Property	42	8%	53	8%
Cash and net current assets	21	4%	13	2%
Total	**552**	**100%**	**661**	**100%**

Note that, for the purposes of determining the funding position at 31 March 2016, the asset value we have used also includes the present value of expected future early retirement strain payments (amounting to £0.7 m).

Accounting data – revenue account for the three years to 31 March 2016

Consolidated accounts (£000)	Year to			
	31 March 2014	31 March 2015	31 March 2016	Total
Income				
Employer - normal contributions	19,142	16,580	16,763	52,485
Employer - additional contributions	0	3,934	4,549	8,483
Employer - early retirement and augmentation strain contributions	0	938	422	1,360
Employee - normal contributions	6,316	6,561	6,599	19,476
Employee - additional contributions	0	0	0	0
Transfers In Received (including group and individual)	2,874	1,267	5,839	9,980
Other Income	306	36	261	603
Total Income	**28,638**	**29,316**	**34,433**	**92,387**
Expenditure				
Gross Retirement Pensions	23,296	25,188	26,454	74,938
Lump Sum Retirement Benefits	6,957	6,068	4,074	17,099
Death in Service Lump sum	1,006	752	737	2,495
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	17	44	60	121
Transfers out (including bulk and individual)	1,057	2,222	3,179	6,458
Fees and Expenses	1,189	1,389	1,178	3,756
Total Expenditure	**33,522**	**35,663**	**35,682**	**104,867**
Net Cashflow	**-4,884**	**-6,347**	**-1,249**	**-12,480**
Assets at start of year	**552,227**	**590,817**	**674,845**	**552,227**
Net cashflow	**-4,884**	**-6,347**	**-1,249**	**-12,480**
Change in value	**43,474**	**90,375**	**-12,595**	**121,254**
Assets at end of year	**590,817**	**674,845**	**661,001**	**661,001**
Approximate rate of return on assets	**7.9%**	**15.4%**	**-1.9%**	**22.2%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2013 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	4.6%	3.8%
CPI	2.1%	2.1%
Pay increases*	3.8%	2.4%
Pension increases:		
pension in excess of GMP	2.5%	2.1%
post-88 GMP	2.5%	2.1%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.1%	2.1%
Revaluation of accrued CARE pension	-	2.1%
Expenses	0.8%	1.2%

*An allowance is also made for promotional pay increases (see table below).

Mortality assumptions

Longevity assumptions	31 March 2016
Longevity - baseline	Vita
Longevity - improvements	
CMI Model version used	CMI_2013
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at January 2014.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1950 or later declining linearly to 5 years for those born in 1915 or earlier.
Proportion of convergence remaining at mid point	50%

As a member of Club Vita, the baseline longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data the Fund has provided us with for the purposes of this valuation. Full details of these are available on request.

We have used a longevity improvement assumption based on the industry standard projection model calibrated with information from our longevity experts in Club Vita. The starting point for the improvements has been based on observed death rates in the Club Vita data bank over the period up to 2012.

We have used the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, instead of the more recent 2015 version, as we do not believe the increased mortality experience factored into the 2015 model is the start of a new trend. We believe it is more appropriate to use the 2013 version of the model for the 2016 valuation.

In the short term we have assumed that the improvements in life expectancy observed up to 2010 will start to tail off immediately, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This could be described as assuming that improvements have ‘peaked’.

In the longer term we have assumed that increases in life expectancy will stabilise at a rate of increase of 0.9 years per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that above age 90 improvements in mortality are hard to achieve, and so the long term rate of improvement declines between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Other demographic valuation assumptions

Retirements in normal health	We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators. Further details about this assumption are available on request.
Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Males

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	219.73	439.47	0.00	0.00	0.00	0.00
25	117	0.21	145.14	290.28	0.00	0.00	0.00	0.00
30	131	0.26	102.98	205.93	0.00	0.00	0.00	0.00
35	144	0.30	80.46	160.88	0.12	0.09	0.10	0.07
40	150	0.51	64.78	129.48	0.20	0.15	0.16	0.12
45	157	0.85	60.85	121.60	0.44	0.33	0.35	0.27
50	162	1.36	50.16	100.12	1.13	0.85	1.14	0.85
55	162	2.13	39.50	78.88	4.42	3.32	2.56	1.92
60	162	3.83	35.20	70.28	7.78	5.84	2.20	1.65
65	162	6.38	0.00	0.00	14.78	11.09	0.00	0.00

Please note that the withdrawal figures include tier 3 ill health.

Females

Age	Salary Scale	Incidence per 1000 active members per annum						
		Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.12	151.58	252.63	0.00	0.00	0.00	0.00
25	117	0.12	101.99	169.97	0.12	0.09	0.10	0.07
30	131	0.18	85.50	142.46	0.16	0.12	0.13	0.10
35	144	0.30	73.79	122.91	0.32	0.24	0.26	0.19
40	150	0.48	61.42	102.26	0.48	0.36	0.39	0.29
45	157	0.77	57.31	95.41	0.65	0.48	0.51	0.39
50	162	1.13	48.32	80.35	1.21	0.91	1.22	0.92
55	162	1.49	36.05	60.02	4.48	3.36	2.60	1.95
60	162	1.90	29.06	48.31	9.51	7.14	2.69	2.01
65	162	2.44	0.00	0.00	17.09	12.82	0.00	0.00

Please note that the withdrawal figures include tier 3 ill health.

Appendix F: Technical appendix for contribution rate modelling

This appendix is provided for readers seeking to understand the technical methodology used in assessing the employer contribution rates.

In order to assess the likelihood of the employer's section of the Fund achieving full funding we have carried out stochastic asset liability modelling (ALM) that takes into account the main characteristics and features of each employer's share of the Fund's assets and liabilities. For stabilised employers a full ALM, known as comPASS has been used. For other employers a simplified ALM, known as TARGET has been used. Please refer to the Funding Strategy Statement to determine which method has been applied for each employer.

The following sections provide more detail on the background to the modelling.

Cash flows

In projecting forward the evolution of each employer's section of the Fund, we have used anticipated future benefit cashflows. These cashflows have been generated using the membership data provided for the formal valuation as at 31 March 2016, the demographic and financial assumptions used for the valuation and make an allowance for future new joiners to the Fund (if any employer is open to new entrants).

For comPASS we have estimated future service benefit cash flows and projected salary roll for new entrants (where appropriate) after the valuation date such that payroll remains constant in real terms (i.e. full replacement) unless otherwise stated. There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not specific to the Fund, which is another simplification compared to the modelling of existing members. TARGET uses a similar but simplified approach to generating new entrants. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

We do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cashflows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of each financial year (April to March). Investment strategies are assumed to be rebalanced annually.

Asset liability model (comPASS)

These cashflows, and the employer's assets, are projected forward using stochastic projections of asset returns and economic factors such as inflation and bond yields. These projections are provided by the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, which is discussed in more detail below.

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but we have not considered the impact of this.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cashflows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis would be required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset liability model (TARGET)

TARGET uses a similar, but simplified, modelling approach to that used for comPASS.

Contribution rates are inputs to the model and are assumed not to vary throughout the period of projection, with no valuation every three years or setting of 'stabilised' contribution rates.

In allowing for the simulated economic scenarios, we have used more approximate methods for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified.

When projecting forward the assets, we have modelled a proxy for the Fund's investment strategy by simplifying their current benchmark into growth (UK equity) and non-growth (index-linked gilts) allocations, and then adjusting the volatility of the resultant portfolio results to approximately reflect the diversification benefit of the Fund's investment strategy.

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2016. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon. Only a subset of the asset classes are shown below.

		Annualised total returns												
		Index Linked Gilts (long dated)	UK Equity	Overseas Equity	Private Equity	Property	Senior Loans	Diversified Credit	Absolute Return Bonds (near zero duration)	Diversified Alternatives	Hedge Funds	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-2.9%	-3.7%	-5.6%	-7.2%	-3.8%	-0.8%	0.2%	-2.6%	-2.0%	-3.7%	1.2%	-1.6%	1.7%
	50th %'ile	0.5%	4.5%	4.1%	5.3%	2.0%	2.2%	2.3%	2.0%	2.6%	2.1%	2.6%	-0.7%	3.0%
	84th %'ile	4.1%	12.7%	14.3%	19.4%	8.3%	5.3%	4.5%	6.8%	7.5%	8.2%	4.2%	0.2%	4.5%
10 years	16th %'ile	-1.8%	-1.1%	-2.6%	-3.4%	-1.8%	0.7%	1.3%	-0.8%	-0.1%	-1.3%	1.4%	-1.5%	1.9%
	50th %'ile	0.3%	5.0%	4.6%	5.9%	2.8%	3.1%	3.0%	2.6%	3.4%	3.0%	2.8%	-0.3%	3.5%
	84th %'ile	2.7%	11.1%	12.1%	16.0%	7.5%	5.6%	4.7%	6.2%	7.2%	7.5%	4.5%	0.9%	5.5%
20 years	16th %'ile	-1.0%	1.3%	0.2%	0.3%	0.1%	2.1%	2.4%	1.0%	1.8%	0.7%	1.7%	-0.7%	2.3%
	50th %'ile	0.5%	5.9%	5.6%	7.0%	3.7%	4.2%	4.0%	3.6%	4.5%	4.1%	3.0%	0.8%	4.0%
	84th %'ile	2.2%	10.7%	11.2%	14.0%	7.6%	6.5%	5.8%	6.5%	7.5%	7.8%	4.4%	2.3%	6.3%
	Dispersion (1 yr)	9%	16%	19%	29%	14%	6%	6%	10%	10%	12%	1%		

Appendix G: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2016. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

In the period from the valuation date to early March 2017, the Fund asset returns have been c% However, global expectations for future asset returns have fallen in light of events such as the Brexit vote.

Overall, employer contributions are subject to upwards pressure as a result of post-valuation events.

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2016. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement (FSS). We do not propose altering the FSS or valuation calculations to include allowance for post-valuation date market changes since a long term view has been taken.

Other events

Other than investment conditions changes above, I am not aware of any material changes or events occurring since the valuation date.

Appendix H: Rates and adjustments certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated TBC and our report on the actuarial valuation dated TBC.

The required minimum contribution rates are set out below.

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Minimum Contributions for the Year Ending					
				31 March 2018		31 March 2019		31 March 2020	
		% pay	monetary	Primary rate (% pay)	Secondary contributions	Primary rate (% pay)	Secondary contributions	Primary rate (% pay)	Secondary contributions
Scheduled bodies									
	London Borough of Harrow	16.0%	£4,315,000	19.9%	-3.9% + £5,315,000	19.9%	-3.9% + £6,315,000	19.9%	-3.9% + £7,315,000
5	Stanmore College	16.0%	£119,000	19.9%	£81,000	19.9%	£83,000	19.9%	£85,000
7	Harrow College	16.0%	£204,000	20.3%	£114,000	20.3%	£117,000	20.3%	£120,000
11	St Dominic's Sixth Form College	16.0%	£51,000	21.2%	£1,000	21.2%	£1,000	21.2%	£1,000
Admitted bodies									
2	North London Collegiate School	16.0%	£85,000	28.8%	£410,000	28.8%	£420,000	28.8%	£430,000
35	Linbrook Services	1.8%	-	32.4%	-25.9%	32.4%	-25.9%	32.4%	-25.9%
41	Carillion	25.3%	-	32.6%	-	32.6%	-	32.6%	-
43	Govindas	19.3%	£204,000	28.6%	-	28.6%	-	28.6%	-
46	Taylor Shaw	27.4%	-	33.0%	-	33.0%	-	33.0%	-
49	Sopra Steria	22.7%	-	32.3%	-	32.3%	-	32.3%	-
50	Cofely	31.4%	-	34.0%	-	34.0%	-	34.0%	-
472	Chartwells - Hatch End	20.4%	-	33.8%	-	33.8%	-	33.8%	-
474	Chartwells - Park High	24.4%	-	35.8%	-	35.8%	-	35.8%	-
475	Chartwells - Sacred Heart	27.7%	-	33.3%	-	33.3%	-	33.3%	-
476	Chartwells - Bentley Wood	23.9%	-	33.8%	-	33.8%	-	33.8%	-
477	Chartwells - Nower Hill	23.7%	-	34.0%	-	34.0%	-	34.0%	-
Academy schools									
	Aylward School and Bentley Wood MAT	20.7%	£93,000	19.7%	£47,000	19.7%	£66,000	19.7%	£85,000
28	Canons High	21.2%	£26,000	19.6%	£30,000	19.6%	£42,000	19.6%	£51,000
29	Harrow High	20.5%	£43,000	19.8%	£23,000	19.8%	£33,000	19.8%	£43,000
30	Hatch End High School (Academy)	21.7%	£65,000	20.1%	£33,000	20.1%	£48,000	20.1%	£64,000
31	Nower Hill	22.4%	£29,000	19.9%	£43,000	19.9%	£61,000	19.9%	£62,000
32	Park High	20.4%	£66,000	19.3%	£37,000	19.3%	£50,000	19.3%	£63,000
33	Rooks Heath	22.2%	£47,000	20.5%	£26,000	20.5%	£41,000	20.5%	£56,000
36	Krishna Avanti School	14.9%	£3,000	19.6%	-£1,000	19.6%	-£1,000	19.6%	-£1,000
37	Salvatorian College	22.2%	£52,000	20.0%	£15,000	20.0%	£22,000	20.0%	£29,000
38	Avanti House Free School	22.3%	-	19.9%	£5,000	19.9%	£1,000	19.9%	-£2,000
40	Alexandra School	29.5%	-	19.7%	£11,000	19.7%	£16,000	19.7%	£21,000
42	Jubilee School (Free School)	14.3%	£119,000	18.3%	£6,000	18.3%	£4,000	18.3%	£3,000
44	Heathland and Whitefriars	26.5%	-	20.1%	£43,000	20.1%	£62,000	20.1%	£77,000
51	St Bernadette's Academy	37.2%	-	20.6%	£6,000	20.6%	£9,000	20.6%	£12,000
Employers with no active members									
25	Granary Kids After School Club	-	-	-	-	-	-	-	-
48	Birkin Cleaning	-	-	-	-	-	-	-	-
471	Chartwells - Whitmore High	-	-	-	-	-	-	-	-
473	Chartwells - Harrow High	-	-	-	-	-	-	-	-

Contributions highlighted in yellow are not yet finalised and may be subject to change before 31 March 2017.

Please note the London Borough of Harrow is a pool of employers consisting of the following employers:

1 - The London Borough of Harrow
8 - School Crossing Patrol - LB Harrow
16 - Vaughan F&M School

Signature:

Date:	23 February 2017
Name:	Gemma Sefton
Qualification:	Fellow of the Institute and Faculty of Actuaries
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2016 Actuarial Valuation: London Borough of Harrow valuation results and contribution strategy

Executive summary

Valuation Results

The table below summarises the funding position for the London Borough of Harrow Council, a participating employer in the London Borough of Harrow Pension Fund, as at 31 March 2016. The results of the previous valuation at 31 March 2013 are shown for comparison.

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	713	793
Market Value of Assets	497	584
Surplus / (Deficit)	(217)	(209)
Funding Level	**70%**	**74%**

These results are based on the assumptions detailed below for this valuation.

Contribution strategy

As part of the 2016 valuation, the contribution stability mechanism that applies to the London Borough of Harrow was reviewed to test whether it remained appropriate. This review was carried out using Asset Liability Modelling. The contribution stability mechanism in place from April 2014 to March 2017 limited annual contribution increases and decreases to 0.5% of pay.

As a result of the 2016 review, the Administering Authority, on the advice of the Fund Actuary, believes that the contribution stability mechanism should be revised to increase the likelihood of long term funding success. Following extensive modelling, the Administering Authority has settled upon a contribution strategy whereby contributions will increase by 1% of payroll each year from April 2017 to March 2020, followed by a stability mechanism whereby annual contribution increases are set to 1.5% of pay and decreases are set to 0.6% of pay per annum). The Actuary's modelling indicates that this strategy has a significantly greater likelihood of funding success in the long term than the current strategy. The contributions that will be paid in the period 1 April 2017 to 31 March 2020 are as follows:

Contributions currently in payment 2016/17	31 March 2018	31 March 2019	31 March 2020
16.0% of payroll plus £4,315k	16.0% of payroll plus £5,315k	16.0% of payroll plus £6,315k	16.0% of payroll plus £7,315k

The annual increases of £1m over this period broadly relate to 1% of projected payroll in each year.

Modelling was also carried out on an alternative investment strategy i.e. with a lower allocation to growth assets. This modelling indicated that the Fund should consider and understand the level of risk in its strategy and my understanding is that this will be carried out in 2017.

Scope and Introduction

Scope

This document has been requested by and is addressed to the London Borough of Harrow Council in its capacity as Administering Authority ("the Administering Authority" to the London Borough of Harrow Pension Fund ("the Fund"). It has been prepared by Hymans Robertson to provide information on the results arising from the 2016 actuarial valuation and the outcome of the Asset Liability Modelling exercise for information for at the Pensions Committee meeting on 7 March 2017. It has not been prepared for use for any other purpose and should not be so used.

No liability is accepted under any circumstances by Hymans Robertson LLP for any loss or damage occurring as a result of reliance on any statement, opinion or any error or omission contained herein where the report is used by or disclosed to a third party.

Introduction

We have carried out a valuation of the Fund as at 31 March 2016. The valuation of the Fund on a triennial basis is a regulatory requirement and is used to determine contribution rates payable by participating employers for the 3 year period commencing 1 April 2017.

The purpose of this document is to communicate the valuation results for the London Borough of Harrow ("the Employer"), a participating employer in the Fund, and to explain the approach adopted to setting its contribution strategy.

The results shown are on the basis discussed with the officers of the Fund and agreed by the Committee over the last year. This basis has been used to set the funding strategy and contributions for the period April 2017-March 2020.

2016 – Assumptions: Past service position

Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** exactly benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether they will exchange some of their pension for tax-free cash.

Financial assumptions typically try to predict the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money (using the discount rate).

A summary of our assumptions for this valuation are set out below and full details can be found in Appendix A. These assumptions were discussed at the Pensions Committee meeting on 21 June 2016.

Financial assumptions

The table below summarises the financial assumptions used for the valuation of members' benefits at this valuation. The corresponding assumptions from the 2013 valuation are shown for reference.

	31 March 2013		31 March 2016	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	4.6%	2.1%	3.8%	1.7%
Salary Increases*	3.8%	1.3%	2.4%	0.3%
Price Inflation / Pension Increases	2.5%	-	2.1%	-

** Excluding promotional increases*

We prepared an analysis paper on the Asset Outperformance Assumption (AOA) that is built into the discount rate, and this was discussed with Officers. The paper considered whether to retain the 2013 assumption of 1.6% pa, or move to an alternative assumption (AOAs of 1.4% and 1.8% were tested for comparison). Following discussion with officers, and presentation to the Pensions Committee in June, the valuation has been carried out on an AOA of 1.6% p.a. for the 2016 valuation i.e. no change since 2013.

Longevity

Of all the demographic factors, longevity (or mortality) is the one that presents the greatest uncertainty. Many pension funds now regard longevity to be their second largest risk (after investment performance).

In setting the assumptions for longevity, there are two principal factors that we must consider:

- The life expectancy for members based on what we know today – known as "baseline longevity".
- How this life expectancy is forecast to improve in the future – known as the "longevity improvement".

At the 2013 valuation, we reflected the recent improvement in life expectancy in the assumptions. The emerging evidence is that these assumptions continue to remain broadly appropriate with only some minor revisions required. As a result, the longevity assumption has remained similar at this valuation to give the following sample average future life expectancies (in years) for members:

	31 March 2013	31 March 2016
Male		
Pensioners	22.1 years	22.2 years
Non-pensioners	24.5 years	24 years
Female		
Pensioners	24.4 years	24.4 years
Non-pensioners	26.9 years	26.4 years

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. This year, as in previous years, we have made full use of this to analyse the trends and patterns that are present in the membership of local authority funds and tailor our assumptions to reflect LGPS experience.

As with the financial and longevity assumptions, these demographic assumptions affect both the past service and future service valuation results. Further details on these assumptions are set out in Appendix A.

Further comments on the assumptions

Level of prudence

As required for Local Government Pension Scheme valuations, the approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the Asset Outperformance Assumption that is built into the discount rate (see Appendix A).

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that the assumptions are more prudent than the best estimate.

2016 – Employer valuation results

Past service – funding level and deficit

The table below shows the results of the past service position of the Employer at 31 March 2016. These 2016 figures are based on the valuation assumptions, as set out in the previous section. The final results of the previous valuation at 31 March 2013 are also shown for reference.

Valuation Date	31 March 2013	31 March 2016
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	249	223
Deferred Pensioners	121	152
Pensioners	343	418
Total Liabilities	713	793
Market Value of Assets	497	584
Surplus / (Deficit)	**(217)**	**(209)**
Funding Level	**70%**	**74%**

Post-valuation events

These valuation results are effectively a snapshot of the Employer as at 31 March 2016. However, since that date various events have taken place which will have had an effect on the financial position of the Employer. Whilst we have not explicitly altered the valuation results to allow for these events a short discussion of these "post-valuation events" can still be beneficial in understanding the likelihood of meeting the various funding objectives.

2016 – Employer contribution strategy

Stabilisation

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. As a long term, secure employer in the Fund, the London Borough of Harrow follows a contribution stability mechanism. This is a mechanism whereby employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing the Employer's contribution rate to be relatively stable over time.

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.

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 stabilisation mechanism in force for the Employer between 1 April 2014 and 31 March 2017 limited increases and decreases to contribution rates to 0.5% of pensionable payroll each year i.e. the maximum increase over 3 years is 1.5% of pay.

As part of the 2016 valuation, we carried out Asset Liability Modelling ("ALM") work for the Employer to investigate whether any changes were required to the existing contribution stability mechanism.

We modelled seven different stabilisation mechanisms for the Employer. The scenarios are detailed below:

Stabilisation mechanism	Results label
Current stabilised contribution rate: annual increases/decreases limited to 0.6% of pay*	+0.6/-0.6%
Alternative stabilised contribution rate: annual increases limited to 1.0% of pay, decreases limited to 0.6% of pay	+1.0%/-0.6%
Alternative stabilised contribution rate: annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay	+1.5%/-0.6%
Alternative stabilised contribution rate: annual increases limited to 1.0% of pay, decreases limited to 0.6% of pay, with an overall cap of 30% of pay	+1.0%/-0.6%, <30%
Alternative stabilised contribution rate: annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay, with a notional cap of 30% of pay	+1.5%/-0.6%, <30%
Alternative stabilised contribution rate: Annual increases of 1.0% of pay until 31 March 2020, then annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay, with a notional cap of 40% of pay	+1% for 3, +1.5%/-0.6%, <40%
Alternative stabilised contribution rate: Contributions re-assessed at each triennial valuation and certified based on market conditions at that time (i.e. allowing for no stabilisation)**	unstabilised

*this scenario represents the contribution strategy in place between 1 April 2014 and 31 March 2017. As a result of falling payroll, and the fact the Employer's contributions are certified in part as a monetary contribution (as opposed to a percentage of payroll), the contribution increase that had taken place from 1 April 2016 was effectively 0.6% of payroll.

**this scenario is modelled to allow the Administering Authority and Employer a comparison between contributions based on the stabilisation mechanism and contributions that are not stabilised.

Our ALM projects the assets, liabilities and contribution rate of the Employer over a period of 21 years. The aim of our analysis was to examine the different stabilisation mechanisms against three key financial measures - **Prudence**, **Affordability** and **Stewardship** – to select an appropriate funding strategy.

Prudence

The Actuary needs to satisfy professional requirements that the funding plans in place are prudent and ensure there is a reasonable chance there will be enough money set aside for members' benefits. The analysis enables us to quantify the likelihood of being fully funded (or 'likelihood of success') in 21 years' time. Ideally, we want around 2 in 3 outcomes to be successful or more. .

The Actuary also needs to ensure that the funding plans are not too risky and limit the likelihood of poor funding outcomes. We do this by examining the average of the worst 5% of outcomes ('the downside risk').

Affordability

The cost of the pension benefits is a major expense for employers. The analysis shows the range of potential outcomes for the employer contribution rate in the longer term and allows us to assess the probability that the rate exceeds a particular threshold.

Stewardship

This measure allows us to examine the expected funding level and the range of potential outcomes for the funding level in the longer term. This provides a measure of the expected future financial health of the Fund and enables us to assess the probability that any given strategy is consistent with the safe stewardship of the Fund.

Methodology and assumptions

Details of the modelling approach and underlying assumptions are described in the technical Appendix B.

Results

The table below summarises the outcome of the ALM under each of the measures above for each stabilisation mechanism tested.

Stabilisation mechanism	Prudence – likelihood of success	Prudence – downside risk	Affordability	Stewardship
+0.6/-0.6%	🟡	🔴	🟡	🔴
+1.0%/-0.6%	🟡	🔴	🟡	🟡
+1.5%/-0.6%	🟢	🟡	🔴	🟡
+1.0%/-0.6%, <30%	🟡	🔴	🟡	🔴
+1.5%/-0.6%, <30%	🟡	🔴	🟡	🔴
+1% for 3, +1.5%/-0.6%, <40%	🟢	🟡	🟡	🟡
unstabilised	🟢	🟢	🔴	🟡

🔴 Clearly does not satisfy the measure

🟡 On the borderline of satisfying the measure

🟢 Satisfies the measure

The above results are based on the following success criteria:

Stabilisation mechanism	Prudence – likelihood of success	Prudence – downside risk	Affordability	Stewardship
Success measure	Likelihood of full funding in 21 years' time	Average of the worst 5% of potential funding levels in 21 years' time	Highest median contribution rate during the next 21 years (excluding expenses of 1.2%)	Median projected funding level in 21 years' time
🟢	>65%	>45%	<25%	>120%
🟡	55-65%	25-45%	25-35%	100-120%
🔴	<55%	<25%	>35%	<100%

The results of the ALM exercise show that the current stabilisation mechanism, limiting annual contribution rate increases/decreases to 0.5% of pay (0.5% allowing for current payroll), is no longer an appropriate funding plan.

In fact, the level of downside risk in all stabilised scenarios is high. This is mainly due to the proportion of growth assets in the Fund's strategy and their inherent volatility. However, there is an improvement in the level of downside risk with higher annual contribution rate increases, therefore our advice to the Fund was to incorporate increases of 1.5% of payroll per annum into the contribution strategy. Based on this advice, the strategies shortlisted for consideration were as follows:

- annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay ("+1.5%/-0.6%")
- Annual increases of 1.0% of pay until 31 March 2020, then annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay, with a notional cap of 40% of pay ("+1% for 3, +1.5%/-0.6%, <40%")

Following discussions with the Employer and the Fund Actuary, the Administering Authority has settled on a *variation* the latter of these contribution strategies **- annual increases of (broadly) 1.0% of pay until 31 March 2020, then annual increases limited to 1.5% of pay, decreases limited to 0.6% of pay.**

The resulting certified contribution rates will be as follows:

Contributions currently in payment 2016/17	Minimum Contributions for the Year Ending		
	31 March 2018	31 March 2019	31 March 2020
16.0% of payroll plus £4,315k	16.0% of payroll plus £5,315k	16.0% of payroll plus £6,315k	16.0% of payroll plus £7,315k

This contribution strategy provides some time for the Employer to adjust to the higher contribution increases (by phasing them in over the next 3 years)).

Due to the downside risk i.e. the chance that the Fund ends up in a poor funding outcome, it is not appropriate to consider capping contribution at this time as if the funding position deteriorated significantly, contributions may be required to ensure that all benefit payments could be met when they fell due.

The Asset Liability Modelling showed little difference between the shortlisted strategies on the prudence and stewardship measures, giving all parties comfort that the finalised strategy is appropriate.

Reliances and limitations

This document has been prepared for the purpose of informing the Pensions Committee of the 2016 formal valuation results and nothing contained within it affects any member's benefits. Furthermore, none of the figures should be used for accounting purposes (e.g. under FRS102 or IAS19) or setting employer contribution rates in isolation, or for any other purpose.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation.

The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2016.

The following Technical Actuarial Standards are applicable to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS

Prepared by:-

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

22 February 2017

Appendix A – Derivation of assumptions

The derivation of the assumptions is set out below.

Discount rate

In order to place a value on the Fund's liabilities, we first estimate all of the benefits that we expect to be paid from the Fund in the future. We then convert these to a value in today's money by working back (or "discounting") to the valuation date. This process requires the use of a discount rate. All other things being equal, a higher discount rate results in lower liabilities and vice versa. This is akin to the operation of a bank account – the higher the interest rate, the less we have to set aside now to reach our savings target in the future.

For the purposes of this valuation, the discount rate should reflect the returns that the Fund expects to earn on its investments over the long term. This is done by considering the expected return on the lowest risk investments held (government bonds) and applying a margin to allow for the greater returns that are expected to be generated by the equity-type investments held (equities, property etc). We refer to this additional margin as the Asset Outperformance Assumption (AOA).

For this valuation, we believe that an AOA of 1.6% pa is a prudent and appropriate assumption to adopt.

The table below details the composition of the discount rate at 31 March 2016:

	31 March 2016	
Discount rate	Nominal	Real
"Gilt-based" discount rate	2.2%	0.1%
Asset Outperformance Assumption	1.6%	-
Funding basis discount rate	3.8%	1.7%

Price inflation / pension increases

Due to emerging evidence of an increased gap between Retail Prices Inflation (RPI) and Consumer Prices Inflation (CPI), we expect the average long term difference between RPI and CPI to be 1.0% p.a. (compared to 0.8% p.a. at 2013).

The table below confirms our assumption for CPI/pension increases at this valuation:

Assumed pension increases	31 March 2016
Market-derived RPI	3.2%
RPI to CPI adjustment	1.0%
CPI / pension increases*	2.1%

* constructed via a geometric reduction

Salary increases

The Government announced during the 2015 Summer Budget that it would only fund pay increases in the public sector of 1% p.a. for 4 years from 2016-17 (which we take to mean until the 2019/20 financial year). Beyond then, there is a general belief that economic growth, and hence pay growth, is likely to be at a lower level than historically experienced. In addition, our analysis suggest that around half of the Fund's pre-2014 pay linked liabilities will have run-off by the time we reach 2020.

Our proposed salary increase assumption at 2016 is a "blended" rate that is based on 1% p.a. until 2020, followed by RPI pa thereafter. This compares to RPI + 0.5% pa at 2013.

The table below summarises our proposed salary increase assumption:

Assumed salary increases	31 March 2016
Market-derived RPI	3.2%
Salary increase in excess of inflation	(0.7%)
Total salary increase*	2.4%

* constructed via a geometric reduction

Note that this assumption is made in respect the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Further details on this are available on request.

Mortality assumptions

Baseline longevity - VitaCurves

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund.

We have used a longevity improvement assumption based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank.

In the short term we have assumed that the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as 'peaked'.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that post age 90 improvements in mortality are hard to achieve, declining between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Withdrawals (early leavers)

There were fewer withdrawals than expected between 2013 and 2016 across out LGPS data bank. We have adjusted the likelihood of withdrawals at each age so our assumption better reflects recent experience for 2016.

The rate of withdrawals will not have an impact of the future service rate calculated for your scheme, which will be calculated on the CARE benefit basis at the 2016 valuation.

Ill-health early retirements

The evidence from 2013 to 2016 shows that at a national level:

- There are fewer ill health retirements occurring than was assumed at the 2013 valuation; and
- The ages at which members take ill health early retirement are generally increasing.

We have used ill health early retirement assumptions at 2016 that reflect this experience.

Retirement age

We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.

50:50 option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98ths). This option affects future service only (past service is protected) and the employer's cost will fall as a result of members choosing this option.

As contribution rates are set once at each actuarial valuation, we need to make an assumption about the likely incidence of members taking the 50:50 option. At the 2013 valuation, accurately predicting take-up of the 50:50 option was challenging without any objective evidence. In evaluating the cost savings from pension reform, the Government Actuary's Department (GAD) assumed that 10% of scheme members would take up the 50:50 option. In the absence of any other information, we believed that this was a reasonable assumption to make at 2013.

However, the take up of the 50:50 option since 2014 has been much lower than expected with only around 0.2% of members participating in the 50:50 scheme. Therefore, we have reduced the assumption at the 2016 valuation to assume that 5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Other demographic assumptions

Our assumption for pay growth has been split into general inflationary pay increases and promotional pay growth. We carry out analysis on membership to set this level of assumed promotional pay growth at the 2016 valuation.

Our recommended commutation assumption for this valuation is 50% of HMRC limits for service to 1 April 2008 and 75% of HMRC limits for service from 1 April 2008.

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Funding Strategy Statement
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No.
Wards affected:	All
Enclosures:	Draft Funding Strategy Statement

Section 1 – Summary and Recommendation

Summary
The Committee is requested to consider a draft Funding Strategy Statement and, subject to their comments, approve it.

.**Recommendation**
That, subject to their comments, the Committee approve the draft Funding Strategy Statement.
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Harrow COUNCIL
LONDON

Section 2

1. Under Regulation 58 of the Local Government Pension Scheme Regulations 2013:

   An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

2. The Funding Strategy Statement is required to set out how the Administering Authority (the Council) carries out its responsibilities in respect of:

   - Affordability of employer contributions
   - Transparency of processes
   - Stability of employers' contributions
   - Prudence in the funding basis

3. An extensive draft Statement has been prepared by the Council's Actuary, Hymans Robertson LLP which has been considered by officers and circulated for consultation to members of the Pension Fund Committee and its advisers, members of the Pension Board, all employers and the trade unions. Comments and further advice have been taken into account in the preparation of the attached draft Statement.

4. The Committee are asked to consider the draft Funding Strategy Statement, subject to their comments, approve it.

Financial Implications

5. Whilst the implementation of the Funding Strategy Statement has major financial implications for the Pension Fund there are none arising from this report.

Risk Management Implications

6. Any relevant risks are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

8. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 23 February 2017	✓	Chief Financial Officer
Name: Cynthia Salami Date: 24 February 2017	✓	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.

Funding Strategy Statement

London Borough of Harrow Pension Fund

March 2017

CONTENTS

Funding Strategy Statement PAGE

Appendices

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 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 7 March 2017.

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; and
- 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 roles and 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;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on 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 Ian Talbot, Treasury and Pension Fund Manager in the first instance at e-mail address ian.talbot@harrow.gov.uk or on telephone number 0208 424 1450.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions are made to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 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 number of whom are 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: academy schools, 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 (or Multi Academy Trusts)**, 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. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing its membership of the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 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 (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the 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.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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 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; and
- 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 at a reasonable cost.

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 in the future: 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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- 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 benefitting 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 Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority 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.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. 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 pace of paying contributions;
- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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**	**Colleges**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)		No	No		No
Maximum time horizon – Note (c)	20 years		20 years – subject to security / covenant check	15 years – subject to security / covenant check		Outstanding contract term
Secondary rate – Note (d)	Monetary amount					
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term – where deemed appropriate by the Administering Authority
Probability of achieving target – Note (e)	65%	67%	67%	67%	67%	75%
Phasing of contribution changes	Covered by stabilisation arrangement		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)	n/a	Note (h)		Notes (h) & (i)

Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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 set a higher funding target (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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council Pool	Academies
Max cont increase	1% for three years 1.5% thereafter	1% for three years 1.5% thereafter
Max cont decrease	0.6%	0.6%

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

At the 2016 valuation, existing academies were given the option to pay a stabilised rate of contribution or continue paying their individually calculated contribution rate. Those opting to stabilise contributions were certified an initial contribution rate for 2016/17 equal to the contribution rate payable by the London Borough of Harrow in that year.

In future, new Academies will be given the option to either pay their individual calculated rate at the conversion date or be stabilised. For those electing to stabilise, the initial contribution rate payable will be the contribution in payment by the London Borough of Harrow at the Academy's commencement date. The decision to stabilise would be one-off in nature – that is, Academies would make the decision only on conversion, and would not be able to choose the lower of two different rates at each triennial valuation.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the valuation date (31 March 2016 for the 2016 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 time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer covering the three year period until the next valuation will be set as a monetary amount.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (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 conversions)

The Fund's policies on academies' funding issues are as follows:

i. 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;

ii. 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;

iii. The new academy will be allocated an initial asset share from the Council's assets in the Fund. This asset share will be calculated using the estimated funding position of the 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;

iv. 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.

v. As an alternative to (iv), the academy will have the option at conversion to pay a stabilised rate of contribution as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

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; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, 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. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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 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 a 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 does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. 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; and
- 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 (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 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.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, 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.

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 spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics.

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.

Smaller Transferee Admission 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 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with the 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 time horizon, 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 or surplus;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and

- 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

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

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 may monitor 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 may 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 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external 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.

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; and
- 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 (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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 as part of 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 Appendix 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 Appendix 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; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help 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 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (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 2020, it should be noted that this will need to be reviewed following the 2019 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 Pension Fund Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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 December 2016 for comment;

b) Comments were requested by 20 January 2017.;

c) There was an Employers Forum on 2 February 2017 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 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the Council website

A copy sent by [post/e-mail] to each participating employer in the Fund;

A copy sent to [employee/pensioner] representatives;

A full copy [included in/linked from] 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 2019.

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 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/Investment Strategy Statement, Governance Compliance Statement and Communications Policy Statement. 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 Council website

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:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. 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/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. 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);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;

2. 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/ISS;

3. 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;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. 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;

6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

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 the valuation of liabilities over the long-term.	Only anticipate long-term returns 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.

Risk	Summary of Control Mechanisms
	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 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 were 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.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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 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 Best Value contractors to inform it of forthcoming changes.

Risk	Summary of Control Mechanisms
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever 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.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, 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).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

For employers with a short time horizon, the Administering Authority may choose not to levy a secondary rate depending on the employer's individual circumstances.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;

4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

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".

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.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. 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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets 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 2016 and setting contribution rates effective from 1 April 2017, 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 2013 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

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. 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 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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 the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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 **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target 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 where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
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.
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 **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	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**.
Gilt	A UK Government bond, ie 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.
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).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie 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).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.

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.
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 2016), 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.

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2017
Subject:	Investment Strategy Statement
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Draft Investment Strategy Statement

Section 1 – Summary and Recommendation

Summary
The Committee is requested to consider a draft Investment Strategy Statement and, subject to their comments, approve it.

.Recommendation
That, subject to their comments, the Committee approve the draft Investment Strategy Statement.

Section 2 – Report

1. At their meeting of 22 November 2016 the Committee were advised of the requirement of *The Local Government Scheme (Management of Funds) Regulations 2016* for the Fund to agree an Investment Strategy Statement. They were further advised of a document issued by the Department for Communities and Local Government entitled *Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement.*

2. Taking into account the Guidance and advice from, inter alia, Aon Hewitt and Hymans Robertson drafts of the proposed Statement have been circulated to members of the Committee and its advisers, members of the Pension Board, all employers and the trade unions. A significant number of comments have been received from those consulted and advice has been taken from other interested bodies most notably, the London CIV. These comments and advice have been taken into account in the preparation of the attached draft Statement.

3. The Committee are now asked to consider the attached draft, and subject to their comments, approve it for adoption by the Fund.

Financial Implications

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

Risk Management Implications

5. Any relevant risks arising from investment performance and non-compliance with the Scheme Regulations are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	✓	Chief Financial Officer
Date:	22 February 2017		
Name:	Cynthia Salami	✓	on behalf of the Monitoring Officer
Date:	24 February 2017		

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers – None.

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LONDON BOROUGH OF HARROW PENSION FUND

INVESTMENT STRATEGY STATEMENT

March 2017

CONTENTS

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pension Fund Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority …….. save for those matters delegated to other committees of the Council or to an officer."

1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS, which was approved by the Committee on 7 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers, the Pension Board and the two trade union observers. The ISS should be read in conjunction with the Fund's Funding Strategy Statement also approved by the Committee on 7 March 2017.

2. Statutory background

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

3. Directions by Secretary of State

3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department for Communities and Local Government.

3.2 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.

4. Advisers

4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Committee and Council officers such advice is taken from:

- Aon Hewitt Ltd – investment consultancy
- Independent advisers

4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP

5. Objective of the Fund

5.1 The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (ie the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk 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.

5.3 Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

6 Investment beliefs

6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk.
- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised
- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement

- Since the lifetime of the liabilities is very long, the time horizon of the investment strategy should be similarly long term
- Equities are likely to outperform most other asset classes in the long term and, in view of its current assets / liabilities structure, the Fund's investments should be heavily biased towards this asset class
- Performance advantage is likely to be realised from the successful selection of active asset managers
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to a passive equities manager and other asset classes
- The impact of currency mismatches is mitigated by implementing a currency hedging strategy
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used).

7.4 The Committee has set a strategic asset allocation benchmark for the Fund as detailed in the table below. This benchmark was set in 2013 following the decision to invest into diversified growth funds. It has subsequently been reviewed regularly with the concept of liability driven investments being given particular consideration.

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**	

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets 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. The investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.

7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

7.7 The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for the private equity investment which is now subject to significant distributions, a re-balancing exercise is carried out to ensure that the allocation remains within the range set. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.

7.8 It is intended that the Fund’s investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future.

7.9 At the time of drafting of this Statement, the finalised results of the Fund's 2016 actuarial valuation were not available. The intention is for an Asset Liability Modelling exercise to be undertaken and the strategy reviewed once the results of the valuation become available.

7.10 In the meantime, the Fund's investment consultants have undertaken some high level modelling, using a return based model, to provide some relevant statistics in relation to the Fund.

7.11 The table below outlines the 10 year expected returns and volatilities, on an absolute basis, for the asset classes in which the Fund invests. Expected volatility in this context means that in any given year, approximately 95% of the possible return outcomes will be within the range of the expected return plus or minus two times the volatility.

Asset Class	10 Year Expected Return (% p.a.)	10 Year Volatility (% p.a.)
Passive Global Equities	7.0	20.2
Passive Global Equities (currency hedged)	6.5	17.4
Active Global Equities	8.5	21.3
Emerging Market Equities (Active)	8.7	31.7
Private Equity (Global)	8.0	27.6
UK Property	5.3	12.5
Diversified Growth (GARS)	5.5	11.2
Diversified Growth (Capital Preservation)	4.5	10.2
Corporate Bonds (AA rated, 10 year duration)	1.9	8.9
Index Linked Gilts (25 year duration)	0.2	11.7

Analysis based on Aon Hewitt 10 year capital market assumptions as at 30 September 2016. All assumptions for active management assume funds are Aon buy rated.

7.12 Using the same assumptions as above, as at 30 September 2016 the 10 year expected absolute return of the Fund's investment strategy was 6.8% p.a., with a 10 year expected volatility of 15.1% p.a. Modelling the current investment strategy relative to a proxy for the Fund's liabilities[1], the 10 year relative return was 6.2% p.a. with an expected volatility of 17.8%. More detailed analysis of the Fund's expected returns and risks will be undertaken as part of the Asset Liability Modelling exercise, to be completed once the 2016 actuarial valuation has been completed.

[1] The following assumptions have been used in the modelling: 1) Liability duration has been approximated from a 0.5% stress test resulting in a duration of 16 years. 2) The split between the Pension Fund's fixed and inflation-linked liabilities have been assumed to be approximately 18% and 82% respectively. 3) The liabilities have been approximated using a combination of gilts and index-linked gilts with a similar duration and nature as described above

7.13 In the table above, the expected return and volatility for currency hedged global equities is lower than for unhedged global equities. Hedging currency removes the exposure to movements in exchange rates, which reduces both the expected return and volatility.

7.14 The expected volatility of the Fund's investment strategy relative to the proxy for the Fund's liabilities, as in 7.12 above, is greater than the volatility of the Fund's investment strategy in absolute terms. This is because the value of the liabilities is volatile and does not necessarily react to market conditions in the same way as the Fund's investment strategy.

7.15 Further details on the Fund's risks, including the approach to mitigating them, is provided in section 11.

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8 Asset classes

8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

8.3 Apart from the maximum level of investments detailed in the table above the Fund has no further restrictions.

8.4 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity and property. Over 70% of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, 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.

8.5 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

9 Fund managers

9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

9.2 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.

9.3 Except for the passive global equities manager, the managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.4 The management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. 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.

9.5 As at the date of this ISS the details of the managers appointed by the Committee are as follows:

9.5.1 State Street Global advisors Ltd

Asset class – Global equities
Benchmark – FTSE All-World Index
Performance objective – Match the performance of the benchmark

9.5.2 Longview Partners
Asset class – Developed World equities
Benchmark – MSCI World (Local) (TR Net)
Performance objective – +3% to +3.5% p.a. (gross) over three year rolling periods

9.5.3 Oldfield Partners
Asset class – Developed World equities
Benchmark – MSCI World NDR
Performance objective – Outperform the benchmark by 2-3% net of fees over the long term

9.5.4 GMO LLC
Asset class – Emerging Markets equities
Benchmark – MSCI Emerging Markets
Performance objective – Outperform the index over a market cycle

9.5.5 BlackRock Investment Management (UK) Ltd
Asset class – Corporate bonds
Benchmark – iBoxx Sterling Non-Gilts 10+ Years Index
Performance objective – Match the performance of the benchmark

9.5.6 BlackRock Investment Management (UK) Ltd
Asset class – Index linked gilts
Benchmark – FTSE Actuaries UK Index Linked Gilts Over 5 Years Index
Performance objective – Match the performance of the benchmark

9.5.7 Insight Investment
Asset class – Diversified Growth Fund
Benchmark – 3 Month GBP LIBID
Performance objective – Sterling 3-month LIBID + 3-5%p.a. net of fees

9.5.8 Standard Life Investments
Asset class – Diversified Growth Fund
Benchmark – 3 Month GBP LIBOR
Performance objective – LIBOR (6 month) +5% p.a. over rolling 3 year periods (gross of fees)

9.5.9 Pantheon Ventures

Asset class – Private equity

Benchmark: Europe Fund V ‘A’ LP - MSCI Europe index (gross); FTSE Europe total return index

Benchmark: USA Fund VII LP – S&P 500; Russell 2000; NASDAQ

Benchmark: Global Secondary Fund III ‘A’ LP - FTSE All-World Index; MSCI AC World Index; Russell Global Index

Performance objective – Match the performance of the benchmarks

9.5.10 Aviva Investors Global Services Ltd

Asset class – Property

Benchmark – IPD UK PPF All Balanced Fund

Performance objective – To outperform the benchmark by maximising total returns through a combination of capital growth and income return.

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.

9.8 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

10 Stock lending

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

11 Approach to risk

11.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

11.2 At least once a year (most recently on 21 June 2016) the Committee reviews its risk register which details the principal risks identified and the Committee’s approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.

11.3 Funding risks

11.3.1 The major funding risks identified are:

- Fund assets are not sufficient to meet long term liabilities
- Relative movement in value of Fund assets does not match the relative movement in Fund liabilities
- Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
- Insufficient assets to meet short and medium term liabilities

11.3.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set in 2013 following the decision to invest into diversified growth funds. It has subsequently been reviewed regularly with the concept of liability driven investments being given particular consideration. As mentioned earlier, a detailed review of the Fund's investment strategy will be undertaken once the 2016 actuarial valuation has been completed. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

11.3.3 On a quarterly basis the Committee receives a report from the Investment Adviser on de-risking “triggers” that could be catalysts for a move towards a more liability driven investment strategy. The “triggers” are related to:

- The Fund's funding level
- The 20 year spot yield
- Aon Hewitt's view of bond yields

11.3.4 The Committee also seeks to understand the assumptions used in any analysis and modelling so that they can be compared to their own views and to enable the level of risks associated with these assumptions to be assessed.

11.3.5 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.

11.4 Asset risks

11.4.1 The major asset risks identified are:

- Significant allocation to any single asset category and its underperformance relative to expectation.
- General fall in investment markets
- Failure by fund managers to achieve benchmark returns

11.4.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.
- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- Whilst part of the objective of the Committee 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 Committee 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.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

11.5 Security risks

11.5.1 The major security risks identified are:

- Investment manager may not have an appropriate control framework in place to protect and value Fund assets
- Custody arrangements may not be sufficient to safeguard fund assets
- Counterparty default in stock lending programme and foreign exchange forward contracts

11.5.2 The Committee monitors and manages risks in these areas through the regular scrutiny of the audit of the operations independently conducted for each of its investment managers. Where appropriate (e.g. custody risk in relation to pooled funds), the Fund has delegated such monitoring and management of risk to the appointed investment managers. The Committee has the power to replace a provider should serious concerns arise.

12 Approach to pooling

12.1 In line with the Government's pooling agenda the Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV is operating were set out in the July 2016 submission to Government.

12.2 The London CIV is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid classes to follow.

12.3 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress. At its meeting on 21 June 2016 the Committee agreed that "subject to suitable investment products being available" they envisaged 96% of the Fund's assets being invested with the London CIV by the end of 2020.

12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments.

12.5 However, it has since become clear that, in accordance with Government guidance, assets held in life funds should be retained outside pools. The Fund's allocation of 31% of its total assets in a global equities passive mandate is held in a life fund which thereby reduces the "poolable" universe to 65%. Nevertheless, the Fund agrees that the London CIV should monitor its passive fund as part of the broader pool.

12.6 At the time of preparing this Statement no suitable investment products have yet become available.

12.7 Any assets deemed not appropriate for investment through the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate and whether the non-pooled investments continue to demonstrate value for money. The next such review will take place no later than 2019.

12.8 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London boroughs (in Harrow's case the Pension Fund Committee Chair), and the Investment Advisory Committee which includes both London borough treasurers and pension officers from a number of boroughs. At the company level it is the Board of Directors that is responsible for decision making within the company, which includes decisions to appoint and remove investment managers.

13 Social, environmental and governance considerations

13.1 As considered earlier, the Council recognises 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. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.

13.2 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

13.3 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 they invest. Further, it expects its managers to follow good practice and use their influence as major institutional investors and long term stewards of capital to promote good practice in companies in which they invest and markets to which the Fund is exposed.

13.4 The Fund expects its investment managers (and especially the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund. Effective monitoring can inform engagement with boards and management of investee companies to seek the resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed the Fund expects its managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

13.5 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.

13.6 Over the last year each of the Fund’s investment managers has been asked:

- Whether they had signed up to UN Principles for Responsible Investment (PRI)
- Whether they had signed up to “The UK Stewardship Code”
- To provide reports on their engagement and voting actions

The responses to these queries are available on the Fund’s website (Pension Fund Committee meeting 21 March 2016).

13.7 In addition the Committee meets most of its managers at least once a year and they are always asked to discuss the activities they undertake in respect of socially responsible investment and how they consider long term environmental, social and governance risks in making specific investment decisions.

13.8 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with many companies on a wide range of environmental, social and governance issues.

13.9 The Fund does not hold any assets which it deems to be social investments.

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

14.1 The Fund recognises the importance of its role as a steward of capital and of the need to seek to ensure the highest standards of governance and corporate responsibility in the underlying companies in which its investments reside.

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

14.3 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 with the objective of preserving and enhancing long term shareholder value.

14.4 Accordingly, the Fund’s managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

14.5 The fund managers provide reports on their voting and engagement activities.

15 Stewardship

15.1 Whilst the Committee expects its investment managers to have signed up to The Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors (“The UK Stewardship Code”) it has not yet done so itself. It will be considering whether to do so during the next year

15.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.

15.3 The Fund also believes in collective engagement and is a member of the LAPFF which exercises a voice on behalf of over 70 local authority pension funds across a range of corporate governance issues.

15.4 Additionally the Fund is a member of the Pensions and Lifetime Savings Association through which it joins with other investors to maximize the influence of investors as asset owners.

16 Compliance with “Myners” Principles

16.1 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.
- 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 Investment Strategy Statement 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.

<u>Fund compliance – Full</u>

- 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 Investment Strategy Statement 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.

<u>Fund compliance – Partial</u>

- 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.
- Up to 31 March 2016 regular performance measurement reports were received from State Street Global Services, the most active provider of these services to Local Government Pension Scheme administering authorities. State Street no longer provide these services.
- The Council has now agreed a contract with Pensions and Investment Research Consultants Ltd for them to provide 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 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 relationships between the Committee and the Pension Board are being developed in order that the Board can assist the Committee in its work.

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 Investment Strategy Statement.
- 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 Investment Strategy Statement.
- 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 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.
- Investment Strategy Statement.
- Funding Strategy Statement.
- Triennial Actuarial Valuation.
- Agenda and Minutes of Pension Fund Committee and Pension Board.
- 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

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Local Government Pension Scheme Pooling Arrangements
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – Letter from Minister for Local Government Appendix 2 - Pensions CIV Sectoral Committee: London CIV 2017/18 Budget and MTFS

Section 1 – Summary and recommendations

Summary

The report updates the Committee on the development of the pooling arrangements and the London CIV and recommends that the Committee agrees a payment to the CIV in 2017-18 of £100,000 to cover the service charge (£25,000) and the development funding charge (£75,000).

Recommendations

The Committee are recommended to:

(1) Note the developments outlined in the report

(2) Agree the payment of £100,000 to the London CIV in 2017-18 as the Fund's contribution to the running costs of the CIV

Harrow COUNCIL LONDON

Section 2 – Report

A. Introduction

1. At their last meeting on 22 November 2016 the Committee received an update on pooling arrangements specifically:

    - Update on funds "in the pipeline"
    - Global equity procurement
    - Harrow strategy
    - CIV business plan

2. Significant developments since that meeting have been:

    - senior officers and members of the CIV met the Minister for Local Government on 12 December 2016 and the Chair of the Board of the CIV, Baron Kerslake, received a letter from the Minister dated 16 December 2016
    - there has been a meeting of the Member-level Sectoral Joint Committee on 8 February together with seminars on fixed income/cashflow and stewardship.

3. A copy of the letter from the Minister is attached as Appendix 1. The letter is the most current statement of the Government's position on pooling and most of it appears to be applicable to all pools. However, one paragraph is clearly specifically directed at the London CIV and states as follows:

    "However I note that on current forecasts the transition of assets into the London CIV pool will be unacceptably slow. In order to deliver greater scale and the full potential for savings, I expect the participating funds to work with you to ensure faster progress on transition, and I will review progress in the spring. As many of the participating funds have raised the issue with me, I must also underline that funds may not use multiple pools in order to access a preferred investment manager. Pools may of course procure services from other pools, especially where a particular asset class is not yet available. On that basis I am pleased to confirm that I am content for you to proceed as set out in your final proposal."

    There is a perception that the Minister's concerns about the potential pace of transition arises from the number of funds included in the London CIV. This greatly exceeds the number in any other pool and comprises around one third of all the funds within the LGPS. Notwithstanding this, Harrow will need to bear the Minister's concerns in mind.

4. At their meeting on 22 November 2016 the Committee were advised of the most significant matters then exercising the CIV namely, funds "in the pipeline," the position of "passive" mandates, the global equities procurement process and the CIV Business Plan and revenue streams.

5. At its meeting on 8 February 2017 the Joint Committee considered a report entitled "Pensions CIV Sectoral Committee: London CIV 2017/18 Budget and MTFS." This report provides an update of the main issues currently concerning the CIV and a copy is attached as Appendix 2. The matters highlighted in paragraph 4 above are all updated in this report.

6. The inaugural conference of the CIV will be held on 1 March 2017 at which the Fund will be represented. Verbal feedback will be provided for the Committee.

7. An update on the current Harrow strategy follows in Section B below:

B. Harrow Strategy

8. As at 31 December 2016 the Fund's asset allocation was as follows:

	% @ 31/12/16
<u>Assets for pooling</u>	
Developed World equities (active)	24
Emerging markets equities (active)	11
Property	8
Bonds	13
Diversified Growth Funds	8
<u>Exempt assets</u>	
Global equities (passive)	33
Private equity	3

9. The "launch plan," included as Figure 1 on page 11 of Appendix 2, suggests that a sub-fund managed by Longview Partners will be launched in May 2017. It is understood informally that the fees will be reduced but the nature of this fund may be different from the Harrow current investment being unhedged and not suitable for a full "in specie" transfer. When details are received the Committee will be invited to decide whether it would be an appropriate investment for the Fund. If the Committee decides to invest, by the summer around 50% (albeit 83% of "poolable" mandates) of the Fund's investments will still be subject to transition into the pool.

10. Several global equities and fixed income mandates are scheduled for launch later in 2017 but, it is understood, that none of these are likely to involve any of the Fund's current mandates. Details of the new mandates will be reported to the Committee as soon as notification is received and, so far as possible, will be available to Aon Hewitt as they review the Fund's investment strategy.

11. The Committee have previously been advised that, until recently, the business model of the CIV has assumed two major revenue streams – management fees on assets under management and borough service fees. Experience to date, as reported to the Joint Committee 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. The Joint Committee and the CIV Board have agreed that in addition to the annual service charge of £25,000 charged to each borough they will need to charge a development funding charge of £75,000 in 2017-18 reducing to zero over the next 4-6 years. No official notification of this increase has yet been received but it is expected shortly and the Committee are recommended to agree a payment of £100,000 in 2017-18 with subsequent payments to be agreed as they are notified.

Financial Implications

12. Whilst the pooling initiatives will have an impact on the costs and performance of the Fund the only financial implication arising from this report is the recommendation that the sum of £100,000 be paid to the CIV (£25,000 annual service charge and £75,000 development funding charge). This charge will be met from the Pension Fund.

Risk Management Implications

13. The risks arising from the management and investment of funds are included in 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 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: 21 February 2017	✓	Director of Finance
Name: Caroline Eccles Date: 21 February 2017	✓	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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1 6 DEC 2016

Baron Kerslake
Chair
London Collective Investment Vehicle

Dear Baron Kerslake.

LONDON COLLECTIVE INVESTMENT VEHICLE (CIV): FINAL PROPOSAL

I would like to thank you and all the authorities involved in the London CIV for your final proposal, which we discussed at our meeting on 12 December. I congratulate you on the savings already achieved since the London CIV became operational in 2015, and appreciate the hard work and commitment from elected members and officers which this represents.

It is now over a year since we set the framework for reform of the investment function of the local government pension scheme (LGPS), through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

However I note that on current forecasts the transition of assets into the London CIV pool will be unacceptably slow. In order to deliver greater scale and the full potential for savings, I expect the participating funds to work with you to ensure faster progress on transition, and I will review progress in the spring. As many of the participating funds have raised the issue with me, I must also underline that funds may not use multiple pools in order to access a preferred investment manager. Pools may of course procure services from other pools, especially where a particular asset class is not yet available. On that basis I am pleased to confirm that I am content for you to proceed as set out in your final proposal.

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Yours sincerely.

Marcus Jones

MARCUS JONES MP

Pensions CIV Sectoral Joint Committee

Item no: 9

London CIV 2017/18 Budget and MTFS

Report by:	Hugh Grover	**Job title:**	Chief Executive, London CIV
Date:	8 February 2017		
Telephone:	020 7934 9942	**Email:**	hugh.grover@londonciv.gov.uk

Summary:	As required by the Shareholders Agreement this report provides the committee with London CIV's budget proposals for 2017/18 and the medium term financial strategy for the following years through to March 2022.
Recommendations:	The committee is recommended to consider the contents of this report and to agree to London CIV's 2017/18 budget.

London CIV 2017/18 Budget and MTFS

Introduction

1. Members will be aware that the London CIV Shareholders Agreement (to which all participating London Local Authorities (LLAs) and London CIV are signatories) requires that London CIV's annual budget be submitted for approval by the Shareholders. This report and the attached 2017/18 budget fulfils that requirement and goes beyond to also include a medium term financial strategy (MTFS) covering the financial years through to March 2022.
2. The budget and MTFS have been prepared by London CIV's Executive team and approved for submission to shareholders by London CIV's Board.
3. For clarity, Members are reminded that London CIV is committed to an annual budget cycle and thus only the 2017/18 budget requires formal agreement at this time. The MTFS for following years is provided to give Members clarity about London CIV's future plans and how the growth of assets under management interacts with funding requirements.
4. Members will note that the budget and MTFS have been based on 32 participating LLA LGPS funds. This is because although all 33 funds have now become participating members, LB Richmond and LB Wandsworth are in the process of merging their two funds into one combined fund that will be administered by LB Wandsworth. It is not yet clear at this point what the implications of the merger will be for London CIV, but it may be that income and capital will revert to being available from 32 authorities rather than 33. Thus 32 has been used as the prudent position for budgeting at this point. Legal advice is being sought on the implications of the merger, but for clarity, London CIV has no specific view on the likely or desirable outcome.
5. The Board is grateful to the Joint Committee Chair and Group Leaders, and the Treasurers from the Investment Advisory Committee, for the robust and constructive challenge and guidance they have provided.
6. To facilitate discussions at the local level LLA Treasurers have been provided with copies of this report.
7. An invoice for the proposed Service Charge and Development Funding Charge will be issued to each LLA at the beginning of the financial year.

Recommendations

8. The committee is recommended to consider the contents of this report and to agree to London CIV's 2017/18 budget.

Legal Implications

9. There are no legal implications for London Councils.

Financial implications

10. There are no financial implications for London Councils.

Equalities Implications

11. There are no equalities implications for London Councils

Attachments

12. London CIV 2017/18 Budget and Medium Term Financial Strategy

2016/17 Budget and Medium Term Financial Strategy

January 2017

Contents

1. PURPOSE

This document sets out the following:

- the revised budget forecast for financial year ending March 2017 as agreed by shareholders in December 2016;
- the annual budget as required by the LCIV Shareholder Agreement for the financial year ending March 2018; and
- the Medium Term Financial Strategy (MTFS) covering the annual financial plan for the five years from April 2017 to March 2022.

London CIV's (LCIV) Board has set the strategic direction for the company which is supported by this budget and MTFS. The document has been drafted by the company's Executive team and has been approved by the Board. Day-to-day delivery against the budget is the responsibility of the Executive team which, as with any budgetary process, will require flexibility on managing the detail to ensure that the objectives can be achieved within the overall budgetary framework.

2. CONTEXT

The London CIV journey began back in 2012 with proposals being presented to London Councils' Leaders' Committee that would have led to the complete merger of all of London's 34 Local Government Pension Scheme (LGPS) funds (boroughs, City of London and the London Pension Fund Authority). These proposals were not adopted and instead Leaders' Committee commissioned London Councils officers to facilitate the development of ideas that would deliver most, if not all, of the benefits of merger without the cost, complexity and loss of sovereignty and democratic oversight that would result from merger.

Proposals were developed by a working group comprised of the then London Councils political group leaders and three representative treasurers, which were reported back to Leaders' Committee. In brief those proposals were that:

- A London LGPS Collective Investment Vehicle (CIV) should be set up in the form of an Authorised Contractual Scheme fund (ACS);
- A new company, wholly owned by the participating authorities, should established to act as operator of the CIV; and
- Participation of the separate London LGPS funds should be entirely voluntary, with responsibility for investment strategy and asset allocation staying at the local level, while responsibility for the appointment and management of external fund managers and the general management, performance and oversight of the ACS fund would rest with the operator.

At the same time that these regional proposals were being developed, discussed and agreed the Government was actively considering the future structure of the LGPS nationally and began to make proposals to bring about complete merger across the scheme into a smaller number of funds. However, the work being done across London was in large part successful in demonstrating that voluntary collaboration could be delivered and that, as originally aimed for, substantial benefits could be delivered without the need for merger.

In November 2015 the Government published a document 'LGPS: Investment Reform Criteria and Guidance' setting out policy for all LGPS funds across England and Wales to develop pools along similar lines to London CIV. The funds were instructed to submit "ambitious proposals" for the establishment of a small number of investment pools based on the requirement that every fund must join with a pool and invest the majority of its assets through that pool over a period of time. This direction from Government effectively changed the environment for London funds and London CIV from being engaged in an entirely voluntary collaboration to a more mandatory position.

It is within this changing regional and national policy framework that London CIV has been established and now operates

3. EXECUTIVE SUMMARY

Since FCA authorisation in October 2015, LCIV has launched 6 sub-funds with £3.1 Bn assets under management (AUM) across 14 boroughs (as of 31 December 2016). LCIV resources have been expanded from three to eleven including recruitment of the LCIV Executive Management team and the organisation has worked with stakeholders to establish an effective partnership which is critical to the success of the organisation. Both the scale of AUM achieved in the first twelve months and the operational progress are a considerable achievement.

During the first year of operation, a number of key lessons have also been identified and it is clear that what LCIV has to deliver as a regulated fund manager, providing excellent client service with potentially £25 Bn of assets under management (AUM) across multiple asset classes, is more challenging than had been envisioned.

The challenges faced by London's LGPS funds, as for most of the world's pension funds, are significant and growing. LCIV has to deliver benefits beyond cost savings from scale economies and address the fact that many Pension Fund's strategic asset allocations will increasingly tilt towards asset classes which require scale and in-house expertise. This will inevitably mean higher up-front costs to ensure LCIV has the requisite skills required to deliver the investments investors will require, but ultimately should result in cash and non-cash benefits of a far greater magnitude than originally envisaged.

A key imperative for LCIV and its investors/shareholder to progress from being a delivery platform for voluntary collaboration of London local authorities (LLAs) to a fully established fund management company able to deliver investor benefits in the widest sense, is to ensure the transfer of assets is completed as quickly as possible as a higher AUM base will:

- lead to faster delivery of greater fee savings;
- allow LCIV to efficiently offer a broader range of investment products; and
- allow LCIV to cover its costs and be less reliant on additional LLA funding.

2016/2017 Budget

The status of the annual budget for 2016/17 was reviewed and approved by the shareholders at the General Meeting of the Company held on 13th December 2016. The budget forecast £1.5Mn in revenues, £2.3 Mn operating expense and a deficit of near £800K. The shareholders agreed that the 2016/17 deficit would be covered by existing capital reserves, which would be recovered in future years as LCIV moves to profit and balance balanced budget.

2017/2021 Forecast and Plans

During the next phase of LCIV's development in the period 2017-2021 as it moves from set up through implementation to full 'business as usual' (BaU), LCIV's key priorities are to:

- Continue to work closely with the LLAs to respond to their investment needs and ensure the opportunities LCIV identifies across Global Equities, Fixed Income, and other cash flow-generating asset classes such as Real Estate, Infrastructure and other "alternative" asset classes, will meet those needs;
- Expand LCIV's staff complement in the front, middle and back office to bring on board the necessary capacity, knowledge and skills to deliver the different asset classes, volume of planned fund launches, and ensure that the company can fulfil its fiduciary responsibilities;
- Establish scalable, fit for purpose, system and process capabilities for client reporting, performance management reporting, and risk management; and
- Develop clear and transparent communications with LLAs and stakeholders.

AUM and Revenue Forecast. The plan includes a broadening of asset classes during 2017-2021 with the launch of Global Equities and Fixed Income funds in 2017/18 and 2018/19, Real Estate in 2018/19 and 2019/20, and Infrastructure and Alternatives in 2019/20. Overall, as a result of this expansion the number of sub-funds is likely to increase from 6 to 28 under current assumptions, leading to a forecast increase in AUM from £3.2 billion in March 2017 to £14.1 billion by March 2022. This is equal to 49% of the £29.2 Bn total LLA assets (as of March 2015). Based on the projected AUM growth and other current assumptions, management fees are forecast to grow from £640K at end 2016/17 to £3.9 Mn by end 2021/22.

As it is difficult for LCIV to accurately forecast AUM growth and resulting management fees as decisions to transition assets reside with the LLAs, a number of revenue and cost scenarios have been modelled (working with a sub-group of LLA Treasurers) before finalising the proposed Annual Budget. With the budgeted AUM growth, LCIVs management fees are unlikely to cover annual operating costs over the planning period and additional funding will be required.

It is important to point out that based on LCIVs estimates approximately 60% of 2017/18 expenditure will be focused on fund launches and development projects, with only 40% being targeted on recurring activities or BaU. This ratio of fund launch/development projects to BaU expenditure is forecast to change gradually over the planning period shifting to 10% fund launch/development projects and 90% BaU spend in 2021/2022.

In order to cover the cash flow imbalance between annual revenues and annual costs, LCIV is proposing to introduce a development funding charge (DFC) until LCIV generates sufficient management fee income to cover annual operating costs. The DFC would be in addition to the annual service charge and will decline year on year starting at £75,000 in 2017/18 and reducing to £10,000 in 2021/22 as AUM and management fees rise over the five years.

On 16 December 2016 Marcus Jones MP (Minister for Local Government) wrote to Lord Kerslake, Chair of LCIV, following a meeting to discuss the joint submission of LCIV and the LLAs to government in July 2016. In his letter the Minister noted that, in the government's view, the current forecasts and transition of assets into the LCIV pool will be "unacceptably slow".

Using a more optimistic AUM growth scenario where £19.4 Bn or 67% of the £29.2 Bn LLA assets are transferred to LCIV by March 2022, the DFC would drop to £25,000 in 2019/20 and LCIV would become self-funded through management fees and the annual service charge in 2020/2021, two years earlier than the current plan.

Expense Forecast. Given the expansion in the variety of asset classes and sub-funds, additional resources and systems are required to support:

- the number and variety of funds;
- ongoing investment oversight and risk management; and
- client, financial, and regulatory reporting.

On this basis, total expenses are forecast to increase from £2.3 Mn in 2016/17 to £4.9 Mn in 2019/20 driven by:

- an increase in staffing levels from 11 to 25 over the planning period, which accounts for more than 50% of the cost base;
- investment in client reporting, performance management and risk systems; and
- legal and professional fees associated with sub-fund launches, particularly new asset classes which will require new legal structures and front and back office operating processes to be developed.

Capital Expenditure. The forecast includes a total capital expenditure of £150,000 in 2018/19 which is comprised of:

- £100,000 for ICT equipment to improve IT resilience, and functionality, which will be depreciated over 3 years; and
- an allowance of £50,000 for fixtures and fittings to fit out expanded accommodation which will be depreciated over 3 years.

Enterprise Risks. LCIV Board and Executives have reviewed the risks associated with delivering the 2017/18 plans and identified the key Enterprise Risks, mitigation plans and key risk indicators as outlined in the Enterprise Risk Register, Fig 11. These risks will be monitored on an ongoing basis and status reported quarterly to the Board and stakeholders.

Performance Reporting. LCIV will provide quarterly reports on performance of its funds, annual and half yearly report and accounts and regular newsletter updates. In addition, LCIV's Executive team will provide an update to the Board and stakeholders on progress against the business plan's 2017/18 objectives, including fund launches, financial performance and forecast for the remainder of the financial year and risks.

4. LONDON CIV STRATEGIC FRAMEWORK

LCIV's strategic framework outlines the core purpose of the organisation, its vision, and the value proposition to the LLAs.

Purpose. LCIV's purpose is to create a collective investment vehicle for London Local Authority (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk-adjusted performance.

Vision. LCIV aims to be the vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance

Value Proposition. The LCIV value proposition to the LLAs focuses on:

Performance:	providing superior risk adjusted investment outcomes by leveraging scale economies and full-time resources focused purely on investment management
Opportunity:	providing a broader range of investment opportunities than might be accessible by an LLA acting alone
Efficiency:	providing cost effective investment products through leveraging the scale of LLA pooled assets and being an efficient organisation
Transparency:	providing transparent reporting across investment performance, client reporting, risk management and client benefits

LCIV Objectives. Below are LCIV's Aims and 2017/18 Objectives and KPIs.

LCIV Aims
Investments and Investment Oversight
• Deliver cost effective investment solutions which enable the LLA Pension Funds to meet their investment objectives • Demonstrate and deliver effective investment oversight appropriate for a large scale regulated investment vehicle
Client Service
• Provide excellent client service • Deliver identified client cost savings benefits • Deliver transparent, regular and effective reporting to clients and stakeholders
Finance and Business Operations
• Achieve target AUM levels and revenues • Maximise operational and cost efficiencies • Establish a high-performing learning organisation
Governance, Risk and Compliance
• Deliver LCIV's value proposition within an effective governance structure • Remain an enterprise risk managed and compliant company

LCIV 2017/18 Objectives

Investments and Investment Oversight

- Complete launch of identified and agreed commonality funds
- Launch Global Equity and Fixed Income fund strategies as prioritised in collaboration with LLAs and supported by a business case and transparent benefits
- Deliver quarterly investment oversight dashboard monitoring mandate drift and performance and taking proactive action where required

Client Service

- Complete assessment of LLA needs based on triennial valuation results
- Agree client reporting and service model and implement including SLA
- Establish robust and transparent benefits reporting by LLA

Finance and Business Operations

- Manage costs in line with approved budget
- Finalise target operating model and complete implementation of core systems
- Deliver staff recruitment plan
- Meet LCIV Board and stakeholder MI and reporting requirements and timetables

Governance, Risk and Compliance

- Maintain compliance with FCA regulation including third parties
- Unqualified annual audit report
- Satisfactory Depositary reviews (no red/critical issues)
- Maintain Enterprise Risk register and manage business in accordance with risk appetite statement and agreed tolerances

LCIV 2017/18 KPIs

- AUM: At or above £6.3 Bn
- Income: Management fee income in line with budget
- Expenses: Expense spend in line with budget
- Clients: Deliver products and services from which all 32 LLA pension funds can benefit and have agreed and signed SLAs in place
- Staff: 13 staff on-boarded
- Governance: No significant audit or compliance issues

Charging Principles. As LCIV's purpose is to improve cost efficiency and provide better risk adjusted performance and broader investment opportunities for Local Government Pension Scheme Funds, the company does not aim to make a significant profit. In light of this, LCIV has developed the following charging principles and structure.

Fairness: Charges should be structured as fair as possible to ensure benefits and costs are fairly distributed across investors.

Transparency: LCIV will be transparent with any charges to the LLAs and provide quarterly budget updates to stakeholders.

Structure: LCIV's business model currently has two charging mechanisms:

(i) a management fee on AUM

(ii) an annual service charge of £25,000

LCIV is still in the build phase of development and will require additional funding to invest in required skills, expertise and core infrastructure in order to become a fully established fund management company. To address this funding need, LCIV is proposing to introduce a development funding charge (DFC) to cover the investment required to build the organisation and become self-funded.

Management Fee: The key criteria when setting the LCIV management fee level is to ensure that clear, material net benefits can be achieved inclusive of the LCIV management fee. Therefore, LCIV will ensure:

- Management fees in the annual budget and MTFS will be set at prudent levels
- Management fees are transparently included in the TER of each sub-fund; annual service charge costs are not included in the TER

Service charge: The £25,000 annual service charge is akin to a membership fee providing access to the breadth of LCIV services. The charge is invoiced at the start of each financial year.

Development Funding Charge (DFC): The DFC will cover the investment needed to build out LCIVs fund offering and organisational infrastructure. The DFC level will be set through the annual planning process and proposed to the shareholders when the Annual Budget for each financial year is set. It is proposed that the DFC is invoiced in two parts with 66% of the charge invoiced in April with the remaining 33% to be invoiced in December of each financial year. The December invoice will be adjusted according to the prevailing budget and business needs.

5. 2016/17 BUDGET

The status of the annual budget for 2016/17 was reviewed and approved by LCIV Shareholders at the Company General Meeting held on 13th December 2016. The summary figures from the budget include £1.5Mn in revenues, £2.3 Mn operating expense and a deficit of near £800K. The Shareholders agreed that the 2016/17 budget deficit would be covered by existing capital reserves. Details of the 2016/17 budget and capital adequacy statement can be found in Appendix A.

6. FUND LAUNCH PLANS AND AUM AND REVENUE FORECAST

Investment Principles. LCIV is currently developing a proposal for Investment Principles and will be sharing this with the LLAs to develop a high level set of investment principles which will provide a framework for LCIV's efforts to identify and offer attractive investment opportunities aligned with the LLA's principles and needs.

Current fund status and revenue. As of end December 2017, LCIV has launched 6 sub-funds and 14 LLAs are invested with £3.2 Bn AUM. Management fee income in the first half of 2016/17 was £260K and forecast to reach £640K by March 2017. The service charge for the current year is £25K per LLA with total service charge revenue of £850K including a payment from one LLA from 2015/16. Consolidated management fees and service charge revenue for the first year of operation are forecast to be £1.5 Mn.

Fund launch and AUM forecast. LCIV will be completing the sub-fund launches of the Commonality, Quality and Conviction (CQC) phase encompassing Equities and Multi-Asset funds in early 2017. The asset class prioritisation of the forward looking fund launch plans has been based on the London LGPS Funds consolidated asset allocation as of March 2015. Given that the asset classes with the largest fund allocations are also (relatively speaking) easier asset classes to access, prioritising fund launches based on the size of existing fund allocation was seen as the optimal route to provide opportunities to as many LLAs as possible in the shortest timeframe. As such LCIV has prioritised the procurement of Global Equities funds to be delivered in 2017, followed by Fixed Income funds and broadening to Real estate, Infrastructure and Alternative assets.

While LCIV builds its in-house capacity particularly in the Real Estate and Infrastructure areas, efforts will also be made to explore options to invest earlier in these asset classes. This will include investigating opportunities to work with other areas of the Local Government Pension Schemes (LGPS).

It is recognised that the current triennial valuation may impact the strategic asset allocation and investment needs of the LLAs. With this in mind, LCIV will liaise closely with the LLAs and the Investment Advisory Committee to ensure that the focus of our fund development and investment opportunities are aligned with their needs.

As we move to broaden the asset classes, LCIV should add value beyond leveraging scale to reduce management fees. With the likely changes in strategic asset allocation, combined with fundamental changes in markets, together with industry upheaval for fund managers, the LLAs, working with LCIV, could move beyond standard products and have products built to their specifications which could have both lower fees and materially better returns. This is most applicable to “alternative” asset classes which are planned for launch at the end of 2018 and during 2019, although structural changes in the Fixed Income markets, particularly in traditional, publicly traded assets, have meant that it may be necessary to look at private market debt as we expand into Fixed Income.

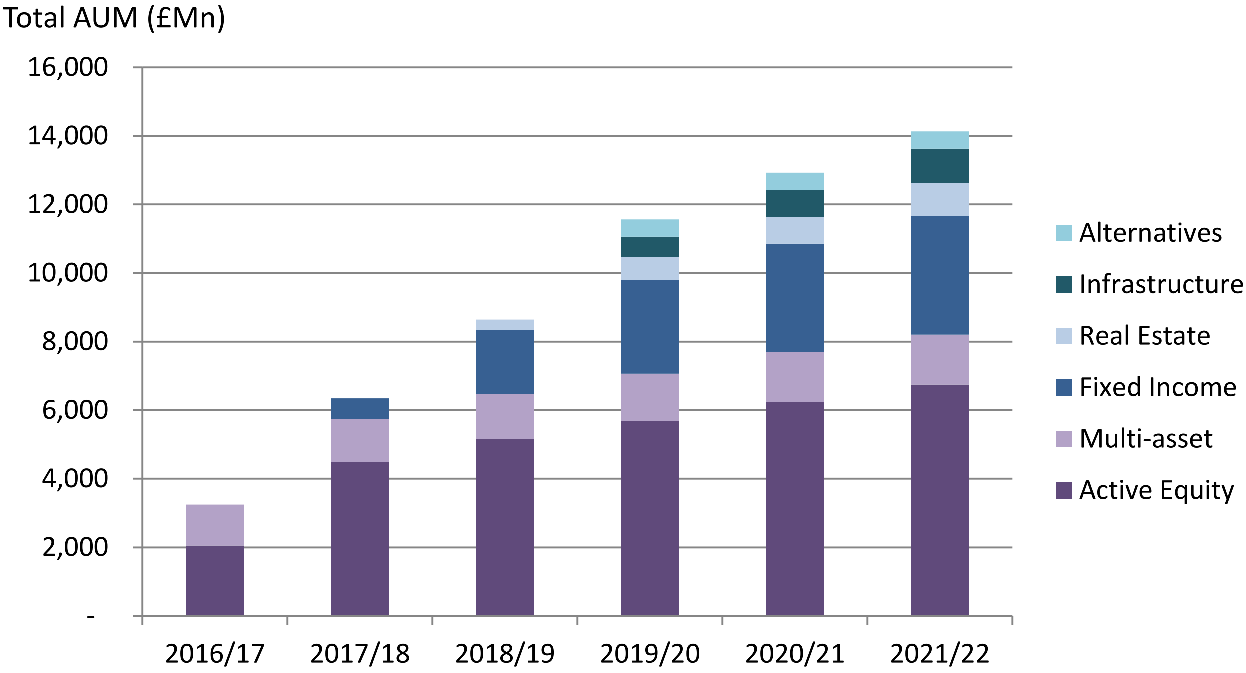
The fund launch and supporting plan is based on the cost structure and operational requirements of a single-manager sub-fund operating under LCIV’s current Financial Conduct Authority (FCA) regulatory approvals which do not include advisory services. The fund plan includes an expansion from 6 to 28 sub-funds over the planning period and growth from £3.2 Bn AUM in March 2017 to £14.1 Bn by March 2022. The fund launch plan for 2016/17 and 2017/21 with estimated AUM at launch date are shown in Fig. 1 below.

Figure 1. LCIV Fund Launch Plan with estimated AUM at launch

	Q1			Q2			Q3			Q4				
	April	May	June	July	August	September	October	November	December	January	February	March	New Funds	Total Funds
2016/17		Ballie Gifford Global Alpha (£1455)	Ruffer Abs Return (£335) (Purford Abs Return (£200))		*Work on passive asset structure and fee negotiations*				Newton Real Return (£330)				4	6
2017/18	Majedie (£530) Newton Global Equity (£500)	Longview (£450)				Global Equity 1 (£200) Global Equity 2 (£200) Global Equity 3 (£150)			Global Equity 4 (£150) Global Equity 5 (£150)			Fixed Income 1 (£300) Fixed Income 2 (£300)	10	16
2018/19			Real Estate 1 (£300)	Fixed Income 3 (£300) Fixed Income 4 (£300)			Fixed Income 5 (£300) Fixed Income 6 (£300)						5	21
2019/20			Real Estate 2 (£300)	Infrastructure 1 (£300) Infrastructure 2 (£300)			Fixed Income 7 (£300) Fixed Income 8 (£300)			Altternatives 1 (£250) Altternatives 2 (£250)			7	28
2020/21 2021/22	No individual fund launches detailed in plan AuM growth driven by subscriptions to funds on platform													

The fund launch plan for financial years 2020/21 and 2021/22 does not identify specific fund launches either by asset class or size as this is highly speculative given potential asset allocation changes from the next triennial review in 2019. The forecast AUM growth in the plan beyond the initial fund launch AUM is driven by estimates of additional subscriptions into existing funds across the asset classes. The AUM forecast across asset classes in shown in Fig. 2.

Figure 2. AUM Forecast based on 2017-2021 Fund Launch Plan



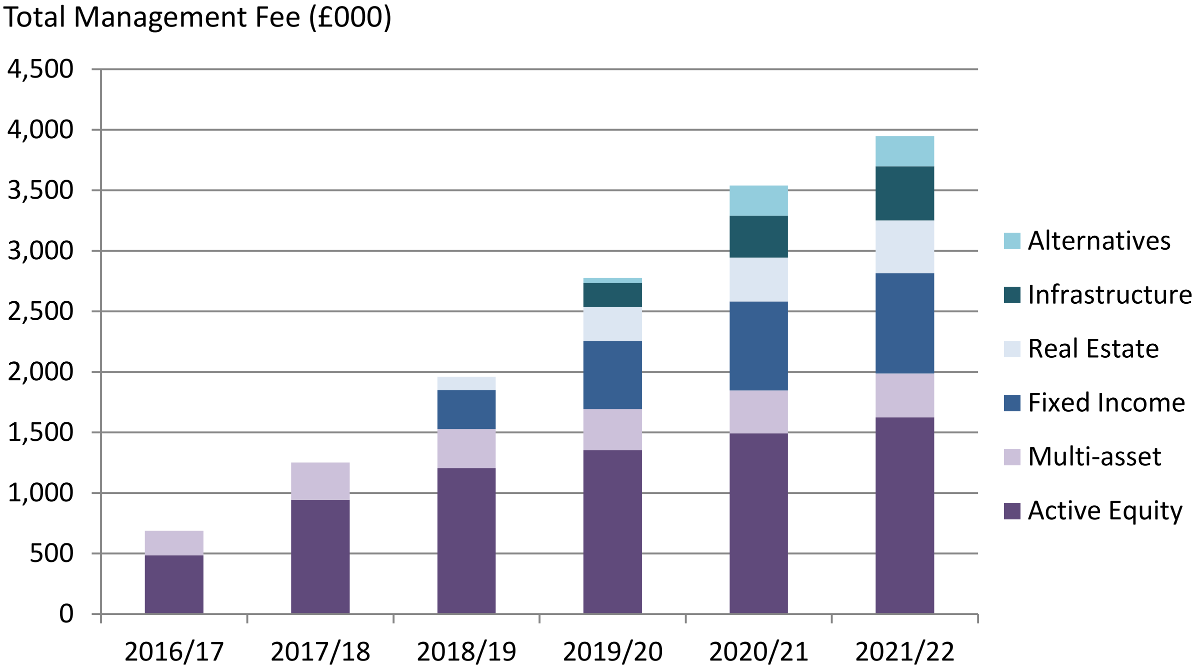
Overall, the forecast AUM of £14.1 billion by March 2022 represents the transfer of 49% of the total £29.2 Bn (as of March 2015) of LLA assets. The forecasted share of LLA asset transfer to LCIV is based on March 2015 LLA asset allocation and outlined below in Fig. 3.

Figure 3. Share of LLA Assets transferred based on 2017 /21 Fund Launch Plan

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Share of LLA Assets	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**March 21**	**March 22**
Active Equities	21%	46%	53%	59%	64%	70%
Passive Equities	0%	0%	0%	0%	0%	0%
Multi Asset	45%	48%	50%	52%	55%	55%
Fixed Income	0%	12%	38%	55%	64%	70%
Property	0%	0%	14%	32%	38%	45%
Infrastructure	0%	0%	0%	306%	398%	517%
Alternative Assets	0%	0%	0%	36%	36%	36%
Total share of LLA Assets transferred	11%	22%	30%	40%	44%	49%

Revenue forecast. Based on the fund launch plans and estimated AUM, the management fee revenue is forecast to grow from £640K at end 2016/17 to £3.9 Mn by end March 2022. LCIV is also currently working with stakeholders to agree an approach to passive assets. During 2016/17, LCIV negotiated significant savings for fourteen funds invested with Legal & General and it has been suggested that the LLAs who benefitted from LCIVs time and effort should pay a fee for the realised benefits. This potential fee would be additional income and has not been included in the revenue forecast. The management fee forecast for the planning period is shown in Fig. 4 below.

Figure 4. Management fee Revenue Forecast



The assumptions of the above revenue forecast over the planning period include:

- management fees per asset class are constant over planning period
- management fee for Equities and Fixed Income is 2.5 basis points (bp)
- management fee for Real Estate, Infrastructure and Alternatives is 5.0 bp
- additional subscriptions are made to funds where no capacity constraints apply
- passive funds will be managed outside LCIV and no passive fee revenue is included
- there are no fund redemptions or sub-fund closures during the planning period
- current LCIV regulatory approvals are sufficient to implement plans

There are two key components for LCIV to deliver the above fund launch plans and associated revenue targets. These include:

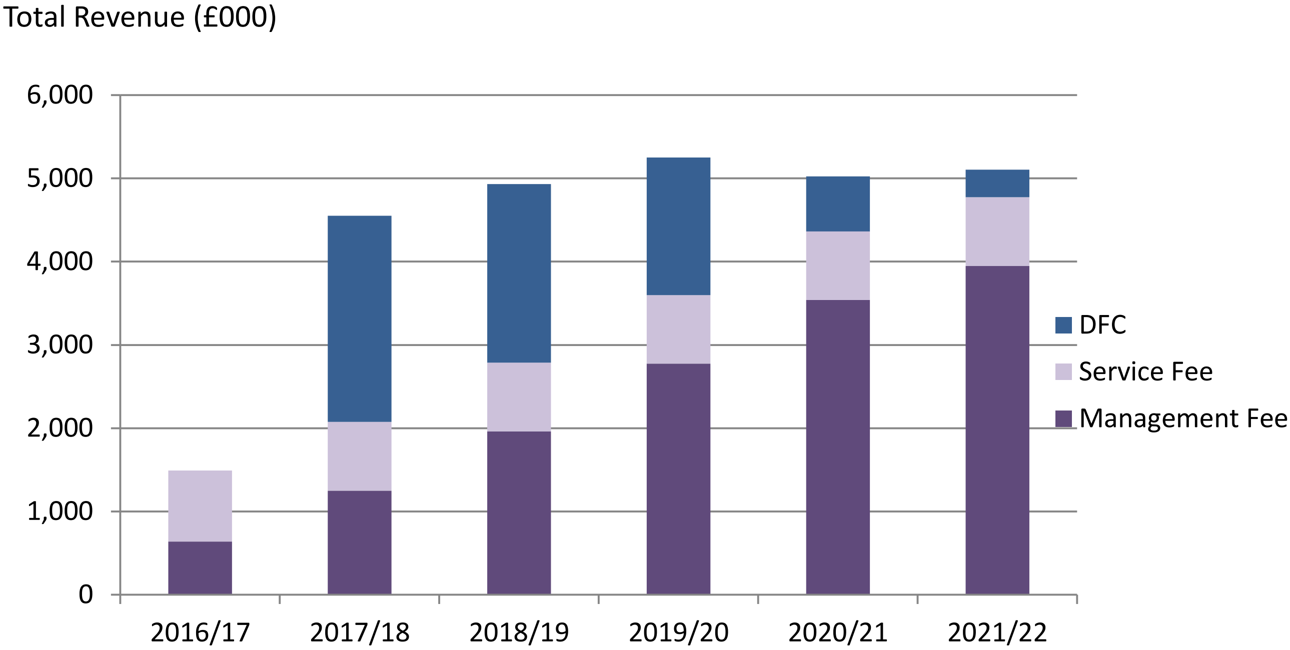
(i) the provision of attractive investment opportunities by LCIV to the LLAs

(ii) the pace at which the LLAs transfer their assets to LCIV

Service Charge and Development Funding Charge. The annual service charge for the planning period will be at £25,000. The DFC which is proposed to be introduced in 2017/18 would be set at £75,000 in 2017/18 and decline year on year to £10,000 in 2021/22.

Total revenue forecast. Based on the management fee forecast, service charge and proposed DFC, the total revenue is forecast to grow from £1.5 Mn in 2016/17 to £5.1 Mn in 2021/22 enabling the company to invest in the critical resources, skills and infrastructure to deliver the forward looking plans. Total revenue forecast is shown in Fig. 5.

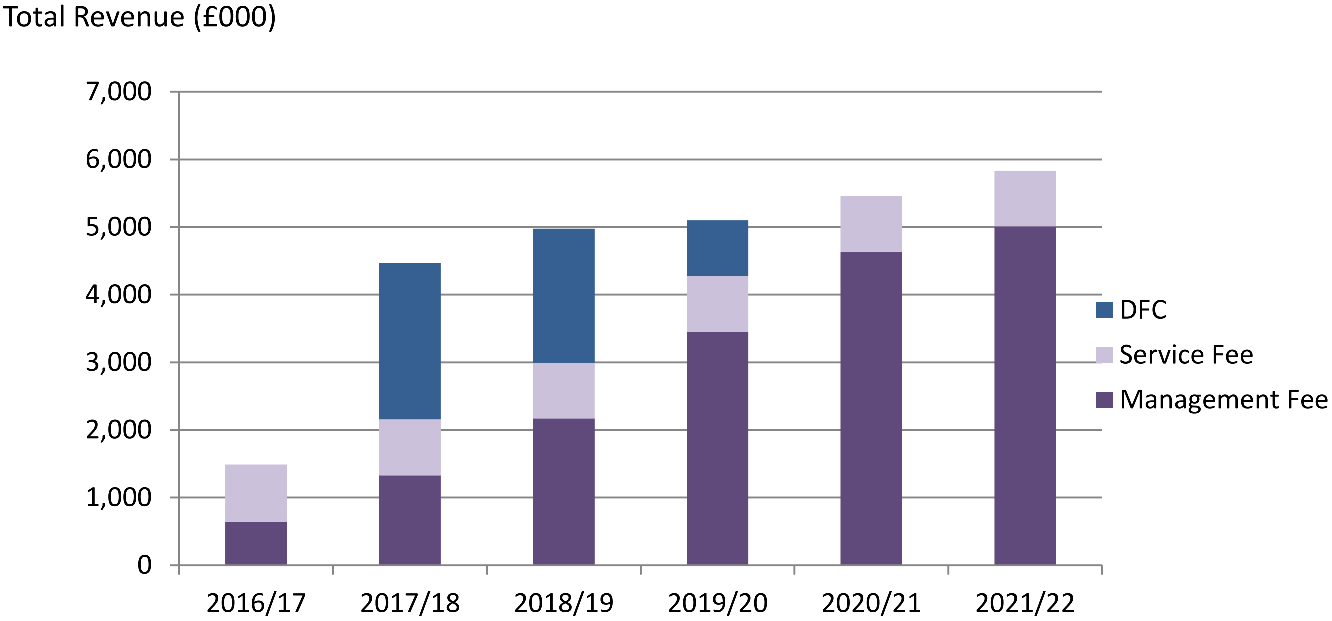
Figure 5. Total Revenue Forecast



On 16 December 2016 Marcus Jones MP (Minister for Local Government) wrote to Lord Kerslake (Chair of LCIV) following a meeting to discuss the joint submission of LCIV and the LLAs to government in July 2016. In his letter the Minister noted that, in the government's view, the current forecasts and transition of assets into the LCIV pool will be "unacceptably slow".

Recognising that transition of assets can only happen as and when LCIV provides the necessary investment opportunities and material benefits can be accessed, a more ambitious pace of fund transfer would suggest that AUM of £19.4 Bn could be achieved by March 2022 (versus planned £14.2 Bn) representing 67% of total LLA assets (versus planned 49%). Apart from responding to the government's challenge this would also result in the DFC declining to £25,000 in 2019/20 and enabling LCIV to cover its annual operating costs from fund management fees by 2020/21, two years earlier than forecast in the current plan. This scenario is based on a faster pace of asset transition and assumes no change in the forecast cost, cost structure or number of funds. LCIV will work closely with the LLAs and seek to jointly deliver a more aggressive pace of asset transfer during the planning period. A summary of revenue scenario with increased pace of fund transfer is shown below in Fig.6.

Figure 6. Revenue Scenario



7. EXPENSE FORECAST

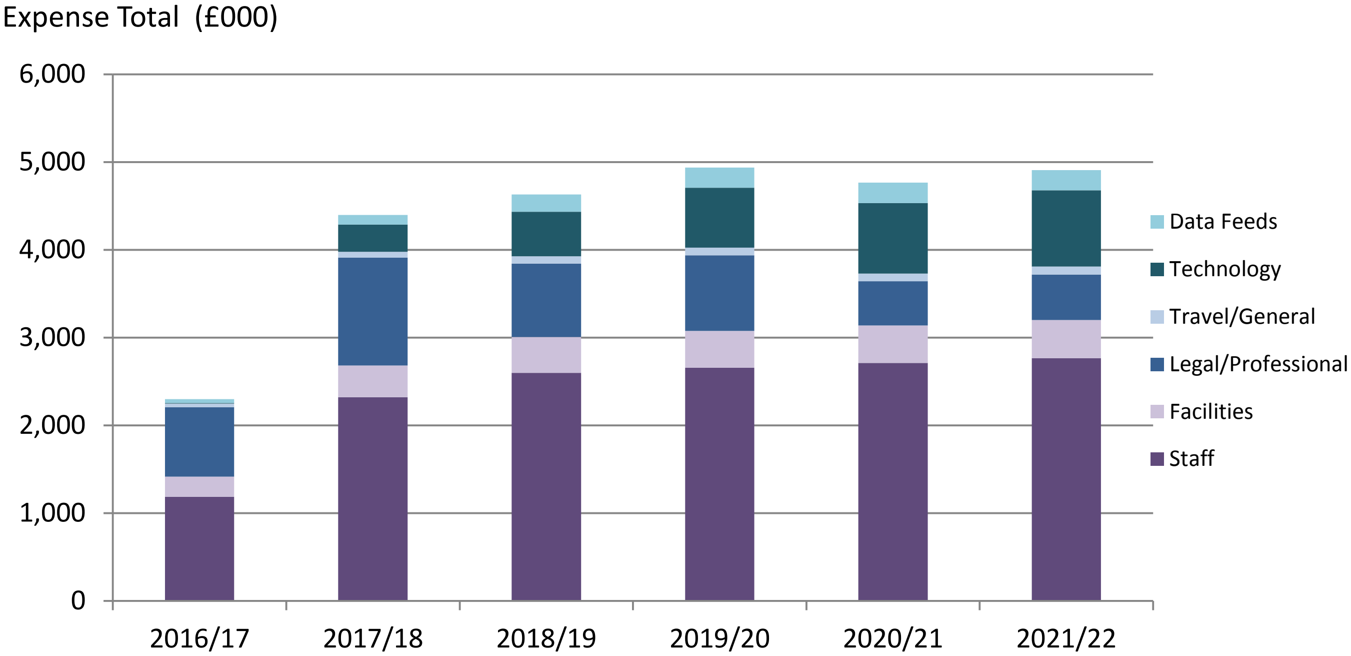
LCIV is moving from implementation and proof of concept to a key development phase for the organisation which requires additional resource investment to deliver proposed fund launch plans. The key cost drivers over the planning period are the variety, complexity and number of sub-funds, staff expansion, investment procurement, professional costs relating to fund structuring and launches, and core information and communication technology (ICT), risk and systems implementation.

From the current base of 6 funds, the number of funds is forecast to increase to 28 and new asset classes may require different fund structures outside of LCIVs Authorised Contractual Scheme (ACS). Staffing to support the growth in assets and business complexity is planned to increase from 11 to 25 resources. There will be a continuing need to utilise external legal and professional services for the fund launches, technology development and organisational expansion.

Consequently, LCIV's costs will increase from £2.3 Mn in March 2017 to £4.9 Mn by March 2022. The increase in costs is primarily driven by operating costs (including the need to recruit staff with the appropriate skills and knowledge base), as well as costs relating to fund launches and operational set up.

To be consistent with the charging principles and ensure costs are fairly distributed across stakeholders, LCIV will be proposing charging fund opening costs such as legal fees and investment consulting fees to the funds, where possible. Accordingly, investors in the fund would incur the directly related fund set-up costs. These costs could be in the region of £50K per sub fund, but can be amortised over a number of years to reduce the immediate impact on early investors. However, for cash flow reasons, the financial plan includes the budgeted set up costs as an LCIV expense currently and would reduce LCIV costs if charged to the sub fund. A summary of the expense forecast is shown below in Fig. 7

Figure 7. Total Expense Forecast



The rationale and key assumptions across the cost line items are outlined below:

Staff. The staff expansion plans and timing have been driven by three key factors:

- fund launches by asset class (see Fig. 1) and the need to hire front office investment, investment oversight and client support capabilities to deliver and monitor a the planned fund range;
- the need to hire core skills for middle and back office including a fund accounting, risk management, and systems and data management; and
- additional middle and back office staff to support the compliance and operational requirements of the fund expansion.

An overview of the current resources and staff build plans are in Fig. 8 below.

Figure 8. 2017/18 Staff Build Plans

Year	Quarter	Front Office	Middle/Back Office	New Staff	Total Staff
Current Resources		*CEO and* *CIO* *AD Borough Client Management* *Head of Investment Oversight* *Investment Analyst* *Investment Analyst*	*Office Manager/EA* *COO* *Programme Director* *Compliance/Risk Manager* *Operations Manager*		*11*
2017/18	Q1	Global Equities Manager AD Investment Oversight/ Performance Client management Assistant	Fund Accountant Systems/Data Manager	5	16
2017/18	Q2	Fixed Income/ Alternatives Manager	Management Accountant Operations Assistant Project Manager	4	20
2017/18	Q3	Real Estate/ Infrastructure Manager	Risk Officer	2	22
2017/18	Q4	Client Management Assistant Administrative Assistant ----	General Support	2	24
2018/19	Q1		Compliance Assistant	1	25

The plan envisages front office staff growing from 5 to 11 staff. The hiring plan has been developed to ensure:

- adequate time for asset class managers to be in place prior to the launch of the new asset class funds;
- sufficient client management resources to deliver effective LLA engagement, service and appropriate data and reporting to the LLAs; and
- robust oversight of sub-funds, including rigorous challenge of investment manager performance.

In order to ensure the business is properly supported, compliant with regulatory requirements, and that risks are adequately identified and managed, the resourcing plan includes the middle and back office growing from 4 to 11 staff. The new staff will fill key functional areas including:

- fund and firm accounting
- risk management
- systems and data support
- compliance
- operations.

A general administration assistant will hired to support the administration needs of both the front and back office staff and expansion.

The remuneration of staff has been budgeted using scales and salary bands of London Councils as a guide. In addition, the LCIV Board is committed to following the London Council Diversity and Equality Guidelines and will apply these during the LCIV staff recruitment process.

Legal and Professional Fees. LCIV work with a variety of professional advisers who advise and assist on a number of technical issues over the planning period. Eversheds are the main source of legal support and provide advice on fund launches, tax, Freedom of Information (FoI), regulatory compliance, employment and governance matters. Other professional service costs include investment oversight support, audit services with Deloitte, Financial Conduct Authority (FCA) fees, internal audit costs, and investment consultant fees in respect of new fund launches and procurement. There will also be consulting support for IT implementation and staff expansion and hiring.

Technology and Data Feeds. ICT support is currently provided by London Councils/City of London as part of the facility arrangements with London Council. As the business requirements of LCIV grow, the technology infrastructure will require additional resources both in terms of staffing and systems to ensure that the appropriate level of resilience and disaster recovery/business continuity support are in place and appropriate to the scale and size of a substantial asset manager. The target operating model will be scoped in Q1 FY 2017 for the systems infrastructure across client and management reporting, performance measurement, online client portals, business continuity and risk management.

As the range and complexity of the ACS platform grows and its fiduciary responsibilities increases, LCIV must ensure that the staff and the Board have the necessary tools to manage this growth and deliver appropriate oversight of the operation. Investment in the infrastructure will allow for operational leverage as the AUM and business expands.

8. CAPITAL SPENDING FORECAST

The forecast includes a total capital expenditure of £150K in 2018/2019, comprising £100,000 for ICT equipment which will be depreciated over 3 years and an allowance of £50,000 for fixtures and fittings to support office expansion within London Councils' Southwark Street offices which will also be depreciated over 3 years.

9. BENEFITS DELIVERY

LCIV is focused on delivering benefits to the LLAs. Regarding quantifiable benefits for the initial launch phase of funds, these have been calculated based on the fee scales pre and post transition and include the costs associated with the LCIV charges including asset servicer and custody costs.

As of end Q3 2016, the total benefits delivered on £2.5 Bn AUM was estimated to be just under £1m annualised. Incorporating the second half 2016/17 fund launch plan and AUM forecast, the estimated benefits delivered in 2016/17 is forecast to be £1.5 Mn annualised on £3.2 Bn AUM. An additional three sub-funds are forecasted to be launched during Q2 of 2017 with a further £1.5 Bn AUM delivering an estimated £2.4Mn annualised additional savings. In addition, LCIV have negotiated significant savings fee savings for fourteen LLAs invested with Legal & General in passive life funds delivering an annualised savings of £1.85m net on the £3.1 Bn AUM held in LGIM passive life funds outside of LCIV.

With the completion of the CQC in the early FY 2017, the approach to calculating benefits will be reviewed. Where new funds are being launched through a procurement exercise, estimated savings will be provided by comparing the standard institutional rates charged by third party investment manager fees compared to the rates being offered through LCIV.

Tax benefits, procurement savings and lower custody costs are additional cashable benefits with the first procurement benefits being realised with global equity exercise that is currently underway. It is not possible to estimate withholding tax benefits with any accuracy at this point without undertaking a complex and time consuming exercise, however the ACS is a more tax efficient fund structure than many others and was the determining factor in choosing this fund model. Custody costs will be reduced as assets increase through the CIV, but also at a local level, where LLA custody costs should decrease over time as assets are moved across to LCIV.

The non-cashable or softer benefits previously outlined include: data transparency and data access, shared investment manager oversight, regulatory scrutiny, governance, access to alternative investments, responding proactively to the wider LGPS efficiency agenda, market management as well as greater levels of responsible investment and engagement across London.

10. FINANCIAL SUMMARY

The key summary financials over the planning period show AUM growth from £3.2 Bn to £14.1 Bn and an increase in related management fee income from £640K to £3.9 Mn. Increased spend on critical staff and systems resources to build out the core investment and operational processes and procedures will result in costs increasing from £2.3 Mn to £4.9 Mn. As previously noted, the increase in costs is due to fund launches, operational set up and normal operating costs with the earlier years of the plan’s costs relating to fund launch and set up.

To fund the shortfall during this key development phase, LCIV is proposing a DFC of £75,000 in 2017/18. The DFC will be invoiced in two parts; two thirds of the DFC will be billed in April at the beginning of the financial year and the balance invoiced in December in the financial year to which the DFC relates. The DFC will be set and agreed as part of the annual budgetary process which according to the shareholders’ agreement will be agreed no later than 60 days prior to the beginning of the relevant financial period. The DFC will decline over the planning period as management fee income increases and LCIV becomes self-funding from management fee income.

The service charge is forecast to remain constant at £25,000 and will be invoiced annually in April at the beginning of each financial year.

The majority of LCIV's expenses are either monthly (payroll, reporting partner, IT costs, data feeds) or quarterly in arrears such as London Council's (facilities) or City of London's fees. Consulting and other professional fees which are fund or project related are ad hoc in nature but represent less than 15% of annual expenditure.

LCIV is not a capital intensive operation and over the course of the five years of the MTFS, has budgeted for capital expenditure of a total of £150K to cover IT upgrades and office refurbishment in financial years 2017/18. The capital expenditure is required to cover office expansion due to the increase in headcount and increased IT infrastructure resilience. Therefore, the balance sheet of LCIV is operationally liquid and meets the requirement for FCA capital adequacy purposes and LCIV does not anticipate cash flow management challenges provided the annual service charge and DFC are paid as invoiced.

If any significant surplus occurs during the planning period, LCIV's Board will propose one of three options to the LLAs, those being:

(i) retain surplus and increase capital within the business,

(ii) reduce DFC, annual service charge and/or ad valorem charge in subsequent years

(iii) pay out surplus to shareholders as a dividend

The 2017/2021 Profit and Loss, Balance Sheet and Cash Flow summary statements are shown the Summary Financial Statements below in Fig. 9.

Figure 9. Summary Financial Statements

KEY SUMMARY DATA	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Assets under management (AUM) in £Mn	3,252	6,344	8,641	11,562	12,922	14,129
New Sub-funds launched in year	4	10	5	7	0	0
Total Sub Funds FY Year End	6	16	21	28	28	28
LCIV Staff (FY Year End)	11	24	25	25	25	25
LCIV Shareholders/Investors	32	32	32	32	32	32
Annual Service Charge	25,000	25,000	25,000	25,000	25,000	25,000
Development Funding Charge (DFC)		75,000	65,000	50,000	20,000	10,000

2027/2021 PROFIT AND LOSS	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Operating Income						
Service Charge	850,000	800,000	800,000	800,000	800,000	800,000
Development Funding Charge (DFC)		2,400,000	2,080,000	1,600,000	640,000	320,000
Management Fee by Asset Class						
Active Equity	*426,990*	*944,306*	*1,206,540*	*1,355,253*	*1,490,778*	*1,624,238*
Passive Equity	*0*	*0*	*0*	*0*	*0*	*0*
Multi-Asset	*212,593*	*306,270*	*321,584*	*337,663*	*354,546*	*363,193*
Fixed Income	*0*	*0*	*320,000*	*562,375*	*736,106*	*826,836*
Alternatives	*0*	*0*	*112,500*	*519,167*	*958,000*	*1,134,100*
Total Management Fee by Asset Class	639,583	1,250,576	1,960,623	2,774,457	3,539,430	3,948,367
Total Operating Income	1,489,583	4,450,576	4,840,623	5,174,457	4,979,430	5,068,367
Expenses						
Staff	1,185,744	2,318,220	2,596,558	2,657,295	2,710,441	2,764,650
Facilities	231,651	359,256	409,082	419,560	427,751	436,106
Legal and Professional	791,046	1,231,000	836,000	859,000	504,000	519,000
Travel and General Expenses	38,465	67,375	82,750	89,000	89,250	89,240
Technology	6,944	308,458	510,167	682,240	803,500	869,500
Data feeds	43,880	110,000	195,000	230,000	230,000	230,000
Total Operating Expenses	2,297,731	4,394,309	4,629,557	4,937,095	4,764,942	4,908,496
EBITDA	-808,148	56,267	211,066	237,362	214,488	159,871
Depreciation	1,333	1,842	51,719	50,509	50,000	0
Interest Income	15,000	15,000	15,000	15,000	15,000	15,000
PBT	-794,482	69,425	174,347	201,853	179,488	174,871
Corporate Tax @15%	0	0	0	0	0	825
Net Profit/Loss	-794,482	69,425	174,347	201,853	179,488	174,046
	-794,482	*-725,056*	*-550,710*	*-348,856*	*-169,368*	*0*

Figure 9. Summary Financial Statements (continued)

2017/2021 BALANCE SHEET	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
BALANCE SHEEET	March 17	March 18	March 19	March 20	March 21	March 22
Non-Current Assets						
Plant, Property and Equipment (PPE)	5525	5525	155525	155525	155525	155525
Accumulated Deprecation	1,456	3,297	55,017	105,525	155,525	155,525
Total Non-Current Assets	4,070	2,228	100,509	50,000	0	0
Current Assets						
Cash	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819
Total Current Assets	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819
Total Assets	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Capital and Reserves						
A Class Shares	32	32	32	32	32	32
B Class Shares	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000
Retained Earnings	67,110	-727,372	-657,946	-483,600	-281,746	-102,258
Profit/Loss in year	-794,482	69,425	174,347	201,853	179,488	174,046
Total Capital and Reserves	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Total Liability and Shareholder Capital	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819

2017/2021 CASHFLOW	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	March 17	March 18	March 19	March 20	March 21	March 22
Operating Activites						
Operating Profit/Loss	-794,482	69,425	174,347	201,853	179,488	174,046
Depreciation	1,333	1,842	51,719	50,509	50,000	0
Change in Working Capital	0	0	-150,000	0	0	0
Cash from operating activities	-793,148	71,267	76,066	252,362	229,488	174,046
Total change in cash	-793,148	71,267	76,066	252,362	229,488	174,046
Beginning cash balance	4,865,809	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774
Ending cash balance	4,068,591	4,139,858	4,215,924	4,468,286	4,697,774	4,871,819

11. REGULATORY CAPITAL REQUIREMENT

The regulatory capital requirement is determined by a FCA formula derived from a combination of AUM and the expenses of the business. As a regulated entity, LCIV is required to maintain a minimum of regulatory capital at all times and must formally report this to the FCA on a quarterly basis.

LCIV was capitalised to cover a budgeted AUM of £25 Bn with the issuance of £4,950,000 of B shares at £1 each. The capitalisation changed during the 2016/17 financial year due the planned merger of Richmond and Wandsworth Pension Funds resulting in a current capitalisation is £4,800,000. LCIV will be able to meet its regulatory requirements based on the current capital position and the proposed financial plan. A summary of the capital adequacy requirements and surplus are below in Fig. 10.

Figure 10. 2017/21 Capital Requirement

CAPITAL ADEQUACY	FY 2016 March 17	FY 2017 March 18	FY 2018 March 19	FY 2019 March 20	FY 2020 March 21	FY 2021 March 22
AUM Assumptions 2017/2021 (£ Mn)	3,252	6,344	8,641	11,562	12,922	14,129
A = Initial Capital - Euro 125k	111,607	111,607	111,607	111,607	111,607	111,607
B = 0.02% of AUM in Excess of EUR 250 Mn	605,797	1,224,239	1,683,472	2,267,707	2,539,696	2,781,126
C = Quarter of Operating Expenses	574,433	1,098,577	1,157,389	1,234,274	1,191,236	1,227,124
D = Professional Negligence	25,000	25,000	25,000	25,000	25,000	25,000
Regulatory Capital Requirement [1]	742,404	1,360,846	1,820,079	2,404,314	2,676,303	2,917,733
Share Capital	4,800,032	4,800,032	4,800,032	4,800,032	4,800,032	4,800,032
Retained Earnings	67,110	-727,372	-657,946	-483,600	-281,746	-102,258
Current Year P&L	-794,482	69,425	174,347	201,853	179,488	174,046
Total Reserves Carried Forward	4,072,660	4,142,086	4,316,432	4,518,286	4,697,774	4,871,819
Surplus/Deficit Regulatory Capital	3,330,256	2,781,239	2,496,353	2,113,972	2,021,471	1,954,086

12. COMMUNICATIONS

The London CIV objective in communicating to stakeholders is to provide transparent and effective communications and to seek ways to deliver ongoing improvements in our communications and reporting processes. LCIV has a wide range of stakeholders with whom it undertakes communications including (but not limited to):

- London local authorities as investors and shareholders
- Wider local government universe
- Central Government
- Investment Managers
- Third Party suppliers
- Media

In particular, the focus with investors and shareholders is to have a regular and consistent communication program to support partnership and two-way dialogue.

LCIV will use a diverse range of channels to communicate with stakeholders including electronic, paper based, verbal, seminars, and surveys. LCIV is committed to providing high quality reporting to its investors, with quarterly reports on performance of its funds, annual and half yearly report and accounts and regular newsletter updates. LCIV will set out its communications strategy and consult with key stakeholders on its content and timing.

13. GOVERNANCE

LCIV governance structure includes the Board and a number of committees of the Board, and stakeholder committees including the London Councils' Pensions CIV Sectoral Joint Committee and the Society of London Treasurers led Investment Advisory Committee. These bodies are responsible for providing:

i. Oversight and scrutiny of LCIV;

ii. Providing input, assistance and advice to the development of LCIV's investment product.

A summary of the current governance bodies and their responsibilities are outlined below.

It should be noted that LCIV has engaged with key stakeholders and will be commissioning a governance review to ensure that the governance structures which were set up at the formation of LCIV pool arrangements remain fit for purpose and provide the appropriate levels of communication, governance, planning and decision making.

Regulated Entity Governance

LCIV Board of Directors. The LCIV Board comprises four non-executive directors (one of whom is the Chair) and three executive directors (the CEO, COO and CIO). The Board is responsible for overseeing the company's strategic direction including, setting and monitoring the delivery of the business plan and objectives, managing business risk including investment and operational risk, and approving fund launches and investment manager selection oversight.

The Board has the authority to delegate certain matters to Committees; however, the Board retains ultimate responsibility and supervises the discharge of all delegated matters. The Board meets at least four times a year on a quarterly basis. The Boards activities are governed by both the Articles of Association of the Company and the Shareholders' Agreement.

Investment Oversight Committee (IOC). The IOC is a Board Committee with responsibility for overseeing, maintaining and monitoring the investment strategy, performance and investment risk of the sub funds. The IOC does this in accordance with the investment policies approved by the Board and the investment guidelines, as set out in the Prospectus and any supporting documentation including the investment mandates and in compliance with the requirements of the AIFM Directive. Membership of the IOC consists of two Non-Executive Directors, one of which is the Chairman, and the Chief Executive Officer. The committee meets four times a year.

Compliance, Audit and Risk Committee (CARCO). The CARCO is a Board Committee and is responsible for overseeing the compliance and risk obligations of the Company in its capacity as a FCA regulated entity and as an Operator of the London LGPS CIV Authorised Contractual Scheme, including regulatory requirements, market practice and compliance with the requirements of the AIFM Directive. Membership consists of two Non-Executives one of which has risk oversight experience who is also the Chair, and the Chief Executive Officer. The CARCO meets four times a year.

Remuneration Committee (REMCO). The REMCO is responsible for setting the principles and parameters of the remuneration policy for the company and to make recommendations to the Board. Appointments to the Committee are made by the Board in consultation with the Chair of the London Council's Pensions Sectoral Joint Committee (PSJC). Appointments are for a period of up to three years extendable by no more than two additional three-year periods. Membership of the REMCO consists of two non-executive directors and the Chair and Vice-chairs of the PSJC. The committee meets at least once a year and otherwise as required.

Stakeholder Engagement and Governance

London Councils' Pensions CIV Sectoral Joint Committee (PSJC). The PSJC acts as a representative body for those LLAs that have chosen to take a shareholding in London CIV. It exercises functions of the participating LLAs involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating LLAs as shareholders of the company. It also acts as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, to receive and consider reports and information from the ACS Operator, particularly performance information, and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

Investment Advisory Committee (IAC). The IAC is responsible for supporting elected members of the Pensions Sectoral Joint Committee on the investments of the CIV and to liaise with LCIV in defining the investment needs, reviewing fund managers and shaping the annual investment plan. Members consist of pension fund officers and treasurers on a rotating basis for up to three years. The IAC meets on a quarterly basis.

14. RISKS TO THE DELIVERY OF THE PLAN

A number of key assumptions have been made in respect of the fund launch schedule, value of asset transfer, AUM level and staffing requirements and costs.

The performance to plan will be reported on a quarterly basis to the Board and LLA stakeholders. As part of the quarterly reporting, the Executive team will provide an update on progress against the business plan's objectives for 2017/8, including fund launches, financial performance and forecast for the remainder of the financial year. The LCIV Enterprise Risk Register summarising the risks, mitigation plans and key risk indicators (KRIs) is shown below in Fig. 11.

Figure 11. LCIV Enterprise Risks

REF	RISK	MITIGATION	KEY RISK INDICATORS
1.0	**INVESTMENT AND INVESTMENT OVERSIGHT**		
1.1	Investment offerings do not meet LLAs' investment needs; LLAs do not transfer assets	• Track individual LLA engagement, investment barriers • Ensure early LLA engagement in procurement process and identification of seed investors • Set clear and agreed investment principles	• RAG status of LLA engagement by fund offering • Variance on target quarterly / annual AUM
1.2	Investments do not deliver required performance	• Complete effective and thorough investment manager due diligence • Monitor fund performance and challenge investment managers	• Quarterly fund performance reporting • Investment managers reviews
1.3	Fund launches delayed and LLA investments/asset transitions delayed	• Establish disciplined programme management and tracking of milestones • Escalation of issues to Exco which may delay fund launch (eg LLA decisions, benefits business case, 3rd party timelines, etc)	• Launch project milestone delays • Number of items escalated to Exco
1.4	LCIVs success results in fee reductions by current LLA fund managers and LLAs do not transfer assets	• Effectively leverage scale to negotiate material fee reductions • Close and ongoing engagement with LLAs to ensure strategic alignment with LCIVs purpose	• Level and transparency of communications with fund managers
1.5	Government views pace of LLA asset transfer as unacceptably slow creating a damaging response to LLAs/ LCIV	• Ensure clear articulation of benefits to be gained by moving to LCIV • Continue to build trust and confidence of LLAs in LCIVs capabilities to deliver benefits and performance	• RAG status of LLA engagement • Variance on target quarterly / annual AUM • Clarity of benefits in business case
2.0	**CLIENT SERVICE**		
2.1	Failure to deliver defined benefits to the London Local Authorities	• Establish ongoing and transparent engagement with LLAs during fund development process in order to build business case and identify benefits • Establish and agree standard benefits calculation approach with LLAs	• Fund business case not clearly articulated • Variance on target and actual benefits
2.2	Failure to deliver effective client service and reporting	• Establish and implement client service and reporting model • Develop and complete SLA and implement with each LLA	• SLA breaches • Dissatisfied clients

Figure 11. LCIV Enterprise Risks (continued

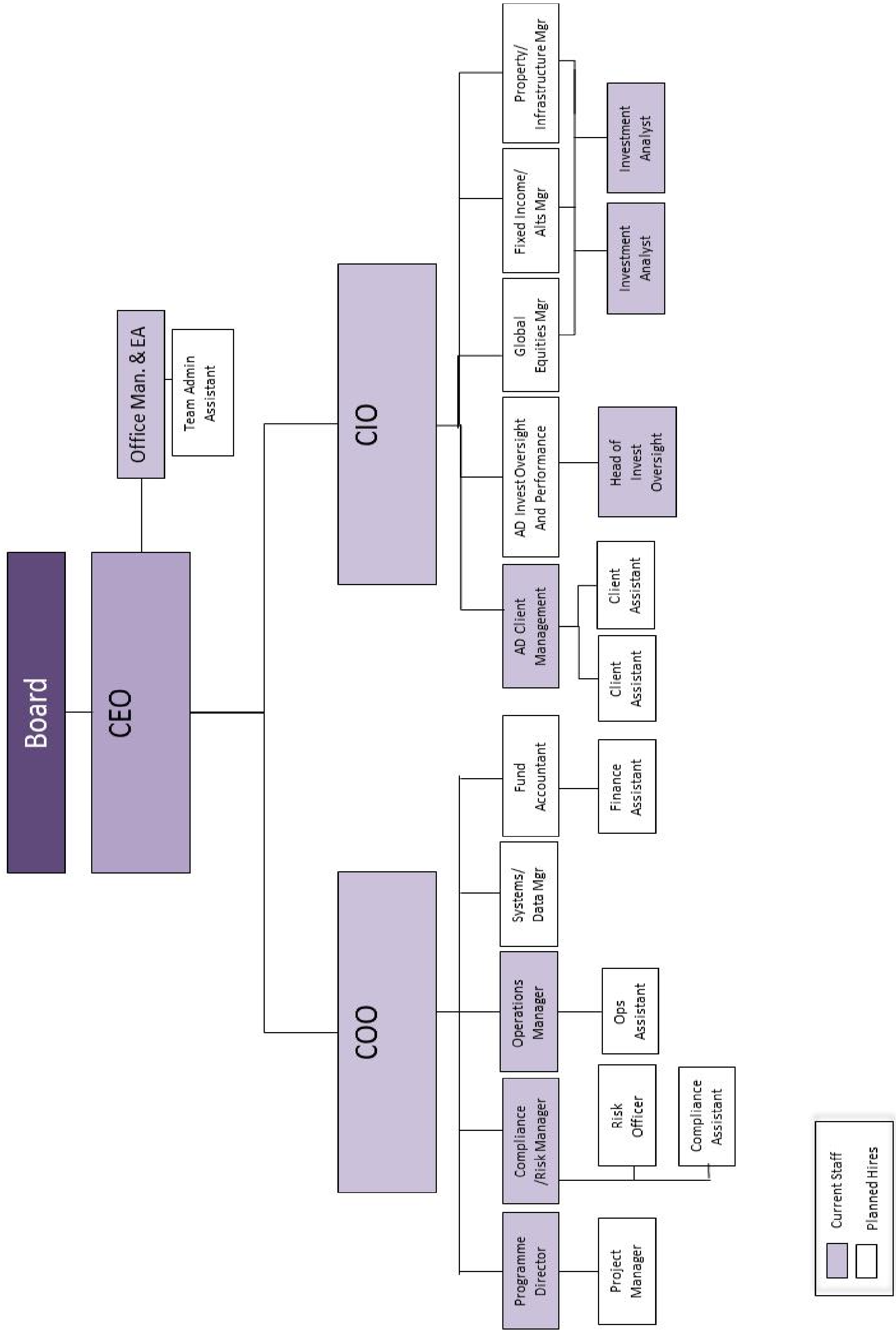
REF	RISK	MITIGATION	KEY RISK INDICATORS
3.0	**FINANCE AND BUSINESS OPERATIONS**		
3.1	Insufficient staff, skills and business processes to deliver against business objectives	• Deliver staffing and recruitment plan • Maintain appropriate organisational structure • Ensure staff performance objectives/ targets are documented and tracked • Implement target operating model and document business processes	• Hiring plans not in place • Critical skill/functional gaps • Performance targets not met • Effective business processes not in place
3.2	Financial controls not in place to ensure delivery against budget	• Monthly budget reporting to ExCo • Quarterly budget reporting to Board and Stakeholders	• Budget variance in monthly and/or quarterly reporting
4.0	**GOVERNANCE, RISK AND COMPLIANCE**		
4.1	Lack of appropriate business governance to deliver against business plan and objectives	• Ensure proper governance is followed for decision making • Deliver accurate, timely and comprehensive MI on KPIs and business plan progress	• Inadequate/misleading MI for decision making • Individual decisions made without oversight which impact the budget, business priorities
4.2	Lack of appropriate culture and tone from the top to establish high performing team and compliant behaviour	• Ensure organisation has clear vision and purpose • Establish clear roles/responsibilities, performance objectives and targets • Ensure adherence to LCIV policies and procedures	• Employee engagement • Underperformance (organisational/individual) • Compliance breaches
4.3	Failure to comply with existing or new financial regulations	• Implement thematic based review of controls • Deliver compliance monitoring plan • Complete consistent monitoring and reacting to new regulation	• Items highlighted in compliance monitoring • Volume of new regulation • Items highlighted in external reviews

APPENDIX I
2016/2017 BUDGET AND CAPITAL ADEQUACY

2016/17 SUMMARY BUDGET	
	March 17
Operating Income	
Service Charge	850,000
Development Funding Charge (DFC)	
Management Fee by Asset Class	
Active Equity	*426,990*
Passive Equity	*0*
Multi-Asset	*212,593*
Fixed Income	*0*
Alternatives	*0*
Total Management Fee by Asset Class	639,583
Total Operating Income	1,489,583
Expenses	
Staff	1,185,744
Facilities	231,651
Legal and Professional	791,046
Travel and General Expenses	38,465
Technology	6,944
Data feeds	43,880
Total Operating Expenses	2,297,731
EBITDA	-808,148
Depreciation	1,333
Interest Income	15,000
PBT	-794,482
Corporate Tax @15%	0
Net Profit/Loss	-794,482
	-794,482

2016/17 CAPITAL ADEQUACY	
	March 17
AUM Assumptions March (£ Mn)	3,252
A = Initial Capital - Euro 125k	111,607
B = 0.02% of AUM in Excess of EUR 250 Mn	605,797
C = Quarter of Operating Expenses	574,433
D = Professional Negligence	25,000
Regulatory Capital Requirement	742,404
Share Capital	4,800,032
Retained Earnings	67,110
Current Year P&L	-794,482
Total Reserves Carried Forward	4,072,660
Surplus/Deficit Regulatory Capital	3,330,256

APPENDIX II
LCIV ORGANISATION CHART



REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Communications Policy Statement
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No.
Wards affected:	All
Enclosures:	Draft Communications Policy Statement

Section 1 – Summary and Recommendation

Summary
The Committee is requested to consider a draft revised Communications Policy Statement and, subject to their comments, approve it.

.Recommendation
That, subject to their comments, the Committee approve the revised Communications Policy Statement.

Section 2 – Report

1. Under Provision 61 of The Local Government Pension Scheme Regulations 2013:

   (1) An administering authority must 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.

   (2) In particular the statement must set out its policy on—

   (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.

   (3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

2. In recent years the Fund's Statement has been reviewed by officers and only agreed by the Committee as part of the Annual Report and Financial Statements. It is, therefore appropriate for the Committee to be asked at this time to review the attached revised draft.

3. Subject to their comments, the Committee are asked to approve the revised Communications Policy Statement.

Financial Implications

4. There are no financial implications arising from this report.

Risk Management Implications

5. Any relevant risks arising from non-compliance with the Scheme Regulations are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	✓	Chief Financial Officer
Date:	21 February 2017		
Name:	Noopur Talwar	✓	on behalf of the Monitoring Officer
Date:	21 February 2017		

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers – None.

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Communications Policy Statement

London Borough of Harrow Pension Fund

March 2017

CONTENTS

Introduction

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

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

- Alexandra School
- Avanti House Free School
- Aylward Primary School
- Bentley Wood School
- Canons High School
- Carillion Services
- Engie
- Govindas
- Harrow College
- Harrow High School
- Hatch End School
- Heathland and Whitefriars School
- Krishna Avanti Primary School
- Linbrook Services
- North London Collegiate School
- Nower Hill High School
- Park High School
- Pinner High School
- Rooks Heath College
- Salvatorian College
- St Bernadette's Catholic School
- St. Dominic's College
- St Jerome School
- Sopria Steria
- Stanmore College
- The Jubilee Academy
- Wates

And, at 31 March 2016 the Fund had 17,699 scheme members (5,561 active members, 6,700 deferred members and 5,438 pensioner members). The delivery of the benefits payable under the Local Government Pension Scheme involves communication with a number of interested parties. This Statement provides an overview of how we communicate and how we measure whether our communications are successful.

It is effective from 1 April 2017.

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

Lesley Freebody

Team Leader
Pensions Team

Harrow Council
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

telephone: 0208 416 8087

email: Lesley.freebody@harrow.gov.uk

Regulatory Framework

This Statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provisions require the 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, the Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other relevant legislation, for example the Pensions Act 2014. The Regulations are 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 Measurement section of this document.

Responsibilities and Resources

Communications material is provided through the Pensions Team and validated through the Communications Unit. The Team write all internally produced communications including information published on the internet/intranet. The Team is also responsible for arranging all forums and meetings covered within this Statement. The Team report through the Council's management structure with ultimate responsibility for ensuring compliance with the Regulations resting with the Corporate Director – Resources and Commercial.

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 Statement, the Team engages with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- scheme employers;
- union representatives;
- Elected Members;
- Pension Board;
- Pensions Team staff;
- local taxpayers and residents;
- other stakeholders / interested parties

In addition there are a number of other stakeholders with whom the Council communicates on a regular basis including Her Majesty's Revenue and Customs (HMRC), Department for Communities and Local Government (DCLG), Department of Works and Pensions (DWP), Pensions Advisory Service, solicitors, actuaries and other pension providers. The Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

How we communicate

General communication

The Council has put in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. However, pensions information, for the most part, is still delivered through paper based communications. The Council has developed alternative communications media (e.g. documents in Braille and large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally the Team utilises the Council's internet/intranet facilities and is developing both email and internet self-service facilities that will enable a gradual move away from paper communications and reduce communication costs.

Within the Pensions 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 on more complicated pensions issues are managed amongst the senior management.

Telephone calls are either routed through a dedicated direct dial number or, alternatively, through main Harrow contact centre and then onwards to one of the Pension Team's extensions.

Branding

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

Accessibility

The 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 can be requested.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members as groups are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to 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 relevant stakeholders have sufficient material to hand to inform pension-related judgements.

In addition, as required, appropriate communications with individual members covering their own particular circumstances are arranged.

Our objectives are met by providing the following communications:

Method of communication	***Media***	***Frequency of issue***	***Method of distribution***	***Audience group (active, deferred or pensioner members or all members)***
Scheme Guide	Paper based and through Harrow's internet/intranet	At joining and at the time of major scheme changes	Post to home address, via scheme employers and online	Active members
Newsletters	Paper based and through Harrow's internet/intranet	Annually and ad hoc to ensure timely notification of major scheme changes	Post to home address and online	Separately for active, deferred and pensioner members
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's internet/intranet	Annually	Hard copy on request and online	All members

Pension Fund Financial Statements Summary	Paper based and through Harrow's internet/intranet	Annually	Post to home address and online	All members
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred members
Fact sheets	Paper based and through Harrow's internet/intranet	Topic specific information sheets	Post to home address and online	Active and deferred members
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All members
One to one education sessions	Personal interview	On request	As requested	All members

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

Pension Fund Annual Report and Financial Statements – Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year 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 Financial Statements Summary – A handy summary of the position of the Pension Fund at the end of the financial year, income and expenditure during the year 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. 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 provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and Annual Report), frequently asked questions and answers, links to related sites and contact information.

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

Policy on Communication with Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to 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 Team do not have immediate access to prospective members but the benefits of a defined benefits scheme are referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Our objectives are met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Overview of the LGPS - Guide	Paper based, and Internet	On commencing employment	Starter pack	New employees

Explanation of communications

Overview of the LGPS – Guide - A brief guide that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Harrow's Pension Fund internet pages.

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 costs associated with funding a defined benefits scheme, to provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide an infrastructure that will assist in maintaining an accurate database.
- to provide literature and processes around starters, changes during employment, leavers and retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure that each employing body understands the benefits of being an LGPS employer.
- to assist the employing body in the development of its discretionary policies.

Our objectives are 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 data storage medium	Main contact for all employers
Employers meeting	Meeting with key employing body personnel	Triennially	Meeting	Employing body management
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's intranet/internet	Annually	Internet	Employing body
FRS102 report	Electronic file format.	Annually	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 publication that provides guidance on the employer's duties and responsibilities. It assists an employer in ensuring that it meets its statutory obligations within the prescribed timescales (e.g. publication of policy on discretions).

Employers Meeting – A formal seminar style event where the Pensions Team provide an update on the triennial actuarial valuation.

Pension Fund Annual Report and Financial Statements – Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year 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.

FRS102 Report – This is a national accounting standard that all authorities administering pension funds must follow. FRS102 requires an organisation to account for retirement benefits when it is committed to provide them, even if the actual provision will well in the future.

Service Level Agreement – A document that sets out, alongside the admission agreement, the duties and responsibilities of the Council and the employing body 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 the unions 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 sufficient knowledge and opportunity to respond on all DCLG 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 assistance in supporting union officers in their learning and understanding of the LGPS

Our objectives are met by providing the following communications:

Method of communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Consultation on strategy statements	Paper based and electronic	As and when required	Email or hard copy	Union observers on Pension Fund committee
Education sessions	Paper based and electronic	On request	Various	Union representatives
Pension Fund Committee meetings	Reports and meetings	In line with published Committee meeting cycle	Notification through Committee Services	Named union observers

Explanation of communications

Consultation papers– documents dealing with key issues and developments relating to the LGPS and the Fund.

Education sessions – 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 – formal meetings of Elected Members, attended by Council senior officers, investment managers, invited pensions specialists and union members.

Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members are:

- to ensure that Elected Members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with 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

Our objectives are 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 in a timely manner briefings to ensure Elected Members are aware all relevant aspects of the Scheme	LGPS specific seminars	All Elected Members but specifically the Pension Fund Committee.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members but specifically the Pension Fund Committee
Pension Fund Committee Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All members of the Pension Fund Committee
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	All Elected Members but specifically the Pension Fund Committee

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 – briefings highlight key issues and developments in the LGPS**.**

Pension Fund Committee Meetings – reports submitted to the Committee.

Report and Verbal Briefing – occasions when Members require briefing on forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

Policy on communication with Pension Board

Our objective with regard to communication with the Pension Board is:

- to ensure that the Board members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.

Our objective is met by providing the following communications:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
Training sessions	Pension seminars	Following the appointment / election of members of the Board or in a timely manner to ensure they are aware all relevant aspects of the Scheme	LGPS specific seminars	All Board Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Board members
Pension Board Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All Board members

Explanation of communications

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

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

Pension Board Meetings – reports submitted to the Board.

Policy on communication with Pensions Team

Our objectives with regard to communication with Pensions Team staff are:

- to 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 to monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate

Our objectives are 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	Appraisal process	All Pensions Team staff
Staff meetings	Informal briefings	As and when required	By arrangement	All Pensions Team staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All Pensions Team 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 pensions legislation or processes

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

Policy on communication with tax payers and residents

Our objective with regard to communication with tax payers is:

- 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 when otherwise required in relation to general enquiries	Various	All Harrow tax payers and residents

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 Pension Fund internet site. Other ad hoc requests are responded to in light of the specific information requested 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 and Adjustment Certificate • Revised Rates and Adjustment Certificate • Cessation valuations	Electronic	Every three years	Email	DCLG, HMRC and all Scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	New "admitted" bodies
Resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Email or post	Scheme member or his/her representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Email or post	As required

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

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

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 working days of joining
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Within 5 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within 10 working days of relevant paperwork being received
Transfers in	Joiners/active members	Within two months of request	Within 10 working days of relevant paperwork being received
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 Financial Statements	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	feedback

Results

The Pension Board receives reports on performance at each of its meetings.

Review Process

Our Communications Policy Statement will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the Statement will always be available either from the Pensions Team at

Harrow Council
3rd Floor, South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

or on our internet site under www.harrowpensionfund.org

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Governance Compliance Statement
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Draft Governance Compliance Statement

Section 1 – Summary and Recommendation

Summary

The Committee is requested to consider a draft revised Governance Compliance Statement and, subject to their comments, approve it.

.Recommendation

That, subject to their comments, the Committee approve the revised Governance Compliance Statement.

Harrow COUNCIL LONDON

Section 2 – Report

1. Under Provision 55 of The Local Government Pension Scheme Regulations 2013 the Council, as Administering Authority is required 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)."

2. In recent years the Fund's Statement has been reviewed by officers and only agreed by the Committee as part of the Annual Report and Financial Statements. It is, therefore appropriate for the Committee to be asked at this time to review the attached revised draft.

3. Subject to their comments, the Committee are asked to approve the revised Governance Compliance Statement.

Financial Implications

4. There are no financial implications arising from this report.

Risk Management Implications

5. Any relevant risks arising from non-compliance with the Scheme Regulations are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 22 February 2017	✓	Chief Financial Officer
Name: David Hodge Date: 23 February 2017	✓	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers – None.

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Governance Compliance Statement

London Borough of Harrow Pension Fund

March 2017

CONTENTS

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 Statement should be sent to:

Treasury and Pension Fund Manager
London Borough of Harrow
3rd Floor, West Wing
Civic Centre
Station Road
Harrow
HA1 2XF
TEL: 020 8424 1450

Regulatory Framework

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

The Regulation 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 in any of the matters set out above. A current version of the Statement will always be available either at the address on page three or on the intranet under – 'Employment with the Council' – 'Employees Pension' – 'Policy Statements' – 'Governance Compliance Statement'.

Delegated Functions

The Council has delegated its functions to the following:

- Pension Fund Committee
- Officer Sub – Group
- Director of Finance
- 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

Officer Sub – Group

The Officer Sub – Group comprises the Director of Finance and the Director of Legal and Governance Services. Other senior officers attend meetings as required.

The Sub-Group meets on an ad-hoc basis and has the responsibility to determine all early retirement applications in line with Council policy

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.

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:

- the effectiveness of the decision making process
- the direction of the Fund and its overall objectives
- the level of transparency in the conduct of the Fund's activities
- the administration of benefits and contributions

Under the provisions of the Act the Board must include equal numbers of employer and member representatives and it is made up as follows:

- Employer representative – London Borough of Harrow
- Employer representative – Scheduled and admitted bodies
- Scheme members' representative – Active members
- Scheme members' representative – Pensioners
- Independent member.

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.

Principle A – Structure

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

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

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

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

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

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

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, but there is no representation of other employers or scheme members. Two trade unions have observer status. The Pension Board includes a representative of non-Council employers, active scheme members and pensioner members and the views of the Board are reported to the Committee.

Principle B – Representation

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

- employing authorities (including non-Scheme employers, eg, admitted bodies);
- Scheme members (including deferred and pensioner Scheme members),
- where appropriate, independent professional observers, and
- 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.

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, two independent advisers and an expert investment adviser but no representation for other employers or scheme members. Two trade unions have observer status.

Principle C – Selection and role of lay members

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.

Principle D – Voting

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

	Not Compliant*				Fully Compliant
a)					√

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

Principle E – Training/Facility time/Expenses

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

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

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

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

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

The Council policy is that the Pension Fund Committee are aware of the six areas of knowledge and skills relating to the LGPS which CIPFA has identified as being the core technical requirements for those involved in decision making. They are frequently advised of training opportunities and are advised of facility time and the reimbursement of expenses.
A training log for all elected members is maintained.
Included in the Terms of Reference for the Pension Board is:
Following appointment each member of the Board should be conversant with:

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

The Administering Authority will provide a training programme which all Committee and Board members will be encouraged to attend

Principle F – Meetings (frequency/quorum)

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

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

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

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

* Please use this space to explain the reason for non-compliance. Key stakeholders including non-Council employers and the trade unions are consulted on an ad hoc basis eg actuarial valuation, Investment Strategy Statement, Funding Strategy Statement

Principle G – Access

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

	Not Compliant*				Fully Compliant
a)					√

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

Principle H – Scope

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

	Not Compliant*				Fully Compliant
a)					√

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

Principle I – Publicity

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

	Not Compliant*				Fully Compliant
a)					√

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

Please use this space if you wish to add anything to explain or expand on the ratings given above

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Policy for Reporting Breaches of the Law
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Draft Policy for Reporting Breaches of the Law

Section 1 – Summary and Recommendation

Summary
The Committee is asked to consider a draft Policy for Reporting Breaches of the Law and, subject to their comments, approve it.

.Recommendation
That, subject to their comments, the Committee approve the Policy for Reporting Breaches of the Law.

Section 2 – Report

1. The Pensions Regulator was established under the Pensions Act 2004 to regulate work-based pensions. The Public Service Pensions Act 2013 introduced an expanded role for the Regulator in overseeing the major work-based pension schemes for those working in the public services.

2. Under the 2013 Act the Regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes.

3. In January 2015 the Regulator published "Code of practice no.14" entitled *Governance and administration of public service pension schemes* which came into force in April 2015. It sets out the legal requirements for public service pension schemes in respect of specific matters, practical guidance and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

4. In paragraphs 241-275 of the Code the Regulator sets out the legal requirements and practical guidance for those with responsibilities for reporting breaches of the law. Specifically the Regulator advises that:

   241. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:
   - *a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with*
   - *the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions .*

   242. People who are subject to the reporting requirement ('reporters') for public service pension schemes are:
   - *scheme managers*
   - *members of pension boards*
   - *any person who is otherwise involved in the administration of a public service pension scheme*
   - *employers*
   - *professional advisers including auditors, actuaries, legal advisers and fund managers*
   - *any person who is otherwise involved in advising the managers of the scheme in relation to the scheme .*

5. Attached is a statement setting out the Council's proposed policy and procedures on identifying, managing and, where necessary, reporting breaches of the law in accordance with the Regulator's Code.

6. Subject to their comments, the Committee are asked to approve the Policy for Reporting Breaches of the Law.

Financial Implications

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

Risk Management Implications

8. Any relevant risks arising from non-compliance with the legal requirements and Scheme Regulations are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

10. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	✓	Chief Financial Officer
Date:	22 February 2017		
Name:	Caroline Eccles	✓	on behalf of the Monitoring Officer
Date:	22 February 2017		

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

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

Background Papers – None.

Policy for Reporting Breaches of the Law

London Borough of Harrow Pension Fund

March 2017

Background

The London Borough of Harrow Pension Fund (“the Fund”) has prepared this document setting out its policy and procedures on identifying, managing and, where necessary, reporting breaches of the law as covered in paragraphs 241 to 275 of the Pensions Regulator’s Code of Practice no 14: Governance and administration of public service pension schemes (“the Code of Practice”).

This policy sets out the responsibility of elected members, officers of The London Borough of Harrow (“the Council”), and the Harrow Pension Board in identifying, managing and, where necessary, reporting breaches of the law as they apply to the management and administration of the Fund. This policy does not cover the responsibility of other “reporters” (described later in this policy) in relation to their obligation to report breaches in accordance with the Code of Practice where they relate to the management and administration of the Fund. Where a breach of the law is identified all parties will take the necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other “reporters”.

This policy will be reviewed and approved by the Council at least annually. The Council will monitor all breaches and will ensure that adequate resources are allocated to managing and administering this process.

The monitoring officer for the Council will be responsible for the management and execution of this breaches policy.

The section 151 officer will ensure that training on breaches of the law and this policy is conducted for all relevant officers and elected members, as well as members of the Pension Board at induction and on an ongoing basis.

Overview

The identification, management and reporting of breaches is important. It is a requirement of the Code of Practice; failure to report a material breach is a civil offence that can result in civil penalties.

At the same time, in addition to identifying, rectifying and, where necessary, reporting a particular breach, such breaches provide an opportunity to learn from mistakes and review and improve processes in the areas where the breach occurred.

All staff involved in the administration and management of the Fund are expected, indeed required, to take a pro-active approach to the identification, management and reporting of all breaches that have occurred, or are likely to occur.

The Council, as the scheme manager for the Harrow Pension Fund, will maintain a log of all breaches of the law as applicable to the management and administration of the Fund.

Where a breach has occurred it should be identified and logged as either an area of non-compliance under the LGPS Regulation, a breach under Pension Law as defined within section 13 of the 2004 Pension Act or the Pension Regulator’s Code of Practice 14.

The Council, officers and the Pension Board cannot rely on waiting for other reporters to report a breach where it has occurred. Where a breach has occurred and has been identified by the Council, officers or Pension Board it should be recorded, assessed and where necessary reported as soon as reasonably practicable.

What is a breach of the law?

A breach of the law is *"an act of breaking or failing to observe a law, agreement, or code of conduct."* In the context of the Local Government Pension Scheme ("LGPS") it can encompass many aspects of the management and administration of the scheme, including, for example, failure:

- to do anything required under the LGPS Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time.

What is non-compliance under the LGPS Regulations?

Non-compliance with the LGPS regulations can cover many aspects of the management and administration of the scheme, including failure:

- to do anything required under the LGPS Regulations
- to comply with policies and procedures (e.g. the Fund's Investment Strategy Statement, Funding Strategy Statement, discretionary policies, etc.);

Responsibilities in relation to breaches

Responsibility to report identified breaches of the law in relation to the Code of Practice falls on the following (known as "reporters"):

- Elected members and officers of the Council (the Scheme Manager);
- Members of the Pension Board;
- Scheme employers;
- Professional advisers (including the Fund actuary, benefit consultant, investment advisers, legal advisers); and
- Third party providers (where so employed).

This policy applies only to elected members and officers of the Council, and members of the Pension Board. It is for the other reporters to ensure adequate procedures and policies are put in place in order to identify, assess and where necessary report breaches. Both the Council and the Pension Board will take all necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other "reporters".

Requirement to report a breach of the Law

Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.

The decision whether to report an identified breach depends on whether:

- there is reasonable cause to believe there has been a breach of the law;

- and if so, is the breach likely to be of material significance to the Regulator?

It is important to understand that not every breach that is identified needs to be reported to the Regulator. For example, where it can be demonstrated that appropriate action is being taken to rectify the breach, or the breach has occurred due to teething problems with new or revised systems or processes, it may not be necessary to report the incident to the Regulator. It is still necessary that all incidents of breaches identified are recorded in the Council's breaches log. This log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour.

Where such failings or fraudulent behaviour are identified immediate action will be taken to agree and put in place a plan of action to rectify the matter and prevent such an occurrence in the future.

When is a breach required to be reported to the Regulator?

The Code of Practice requires that a breach should be notified to the Regulator as soon as is reasonably practicable once there is reasonable cause to believe that a breach has occurred and that it is of material significance to the Regulator. In any event, where a breach is considered to be of material significance it must be reported to the Regulator no later than one month after becoming aware of the breach or likely breach.

Where it is considered that a breach is of such significance that the Regulator is required to intervene as a matter of urgency (for example, serious fraud) the matter should be brought to the attention of the Regulator immediately (e.g. by calling them direct). A formal report should then be submitted to the Regulator, marked as "urgent" in order to draw the Regulator's attention to it

Assessing "reasonable cause"

It is important that the Council and the Pension Board are satisfied that a breach has actually occurred, rather than acting on a suspicion of such an event.

It will be necessary, therefore, for robust checks to be made by officers and elected members when acting on any suspicion of a breach having occurred. Where necessary this will involve taking legal advice from Legal Services (who may recommend specialist external legal advice if necessary) as well as other advisers (e.g. auditors or the Fund actuary, benefit consultant or investment advisers).

Deciding if a breach is "materially significant" and should be reported to the Regulator

The Regulator has produced a decision tree to assist schemes in identifying the severity of a breach and whether it should then be reported. When determining materiality of any breach or likely breach the Council, officers and Pension Board will in all cases consider the following:

- cause – e.g. dishonesty, poor governance, incomplete or inaccurate information, acting or failing to act in contravention of the law;
- effect – does the nature of the breach lead to an increased likelihood of further material breaches. Is it likely to cause, for example; ineffective internal controls, lack of knowledge and understanding, inaccurate records, potential for further breaches occurring;
- reaction – e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate; and

- wider implications – e.g. where a breach has occurred due to lack of knowledge or poor systems and processes making it more likely that other breaches will emerge in the future.

The decision tree provides a “traffic light” system of categorising an identified breach:

Green – not caused by dishonesty, poor governance or a deliberate contravention of the law and its effect is not significant and a plan is in place to rectify the situation. In such cases the breach may not be reported to the Regulator, but should be recorded in the Council’s breaches log;

Amber – does not fall easily into either green or red and requires further investigation in order to determine what action to take. Consideration of other recorded breaches may also be relevant in determining the most appropriate course of action. The Council will need to decide whether to informally alert the Regulator of the breach or likely breach, formally reporting the breach if it is subsequently decided to categorise the breach as red;

Red - caused by dishonesty, poor governance or a deliberate contravention of the law and having a significant impact, even where a plan is in place to rectify the situation. The Council must report all such breaches to the Regulator in all cases;

It should be noted that failure to report a significant breach or likely breach is likely, in itself, to be a significant breach.

The Council will use the Regulator’s decision tree as a means of identifying whether any breach is to be considered as materially significant and so reported to the Regulator.

Any failure of a scheme employer to pass over employee contributions that are considered to be of material significance must be reported to the Regulator immediately.

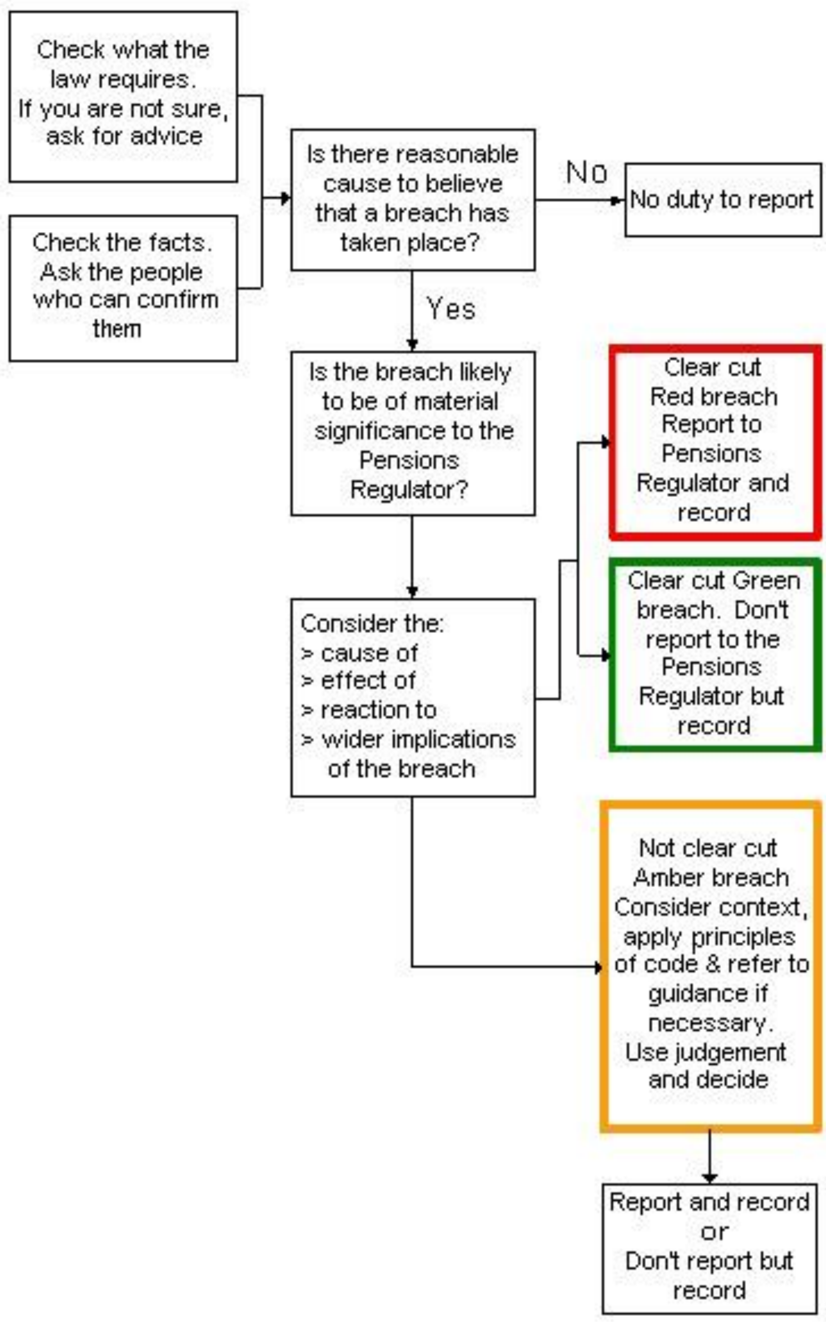
In order to determine whether failure to pay over employee contributions is materially significant or not the Council will seek from the employer:

- the cause and circumstances of the payment failure
- what action the employer has taken as a result of the payment failure, and
- the wider implications or impact of the payment failure.

Where a payment plan is agreed with the employer to recover outstanding contributions and it is being adhered to or there are circumstances of infrequent one-off late payments or administrative failures the late payment will not be considered to be of material significance.

All incidences resulting from the unwillingness or inability of the employer to pay over the employee contributions, dishonesty, fraudulent behaviour or misuse of employee contributions, poor administrative procedures or the failure to pay over employee contributions within 90 days from the due date will be considered to be of material significance and reported to the Regulator.

Once a breach or likely breach has been identified, regardless of whether it needs to be reported to the Regulator, the relevant manager, in consultation with the monitoring officer must review the circumstances of the breach in order to understand why it occurred, the consequences of the breach and agree the corrective measures required to prevent re-occurrence, including an action plan where necessary. All breaches must be recorded in the Council’s breaches log.



Process for reporting breaches

All relevant officers and elected members of the Council, as well as all members of the Pension Board have a responsibility to:

- identify and assess the severity of any breach or likely breach;
- report all breaches or likely breaches to the monitoring officer and section 151 officer;
- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, obtaining appropriate legal or other advice where necessary;
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from recurring; and
- co-operate with, and assist in, the reporting of breaches and likely breaches to the Pension Fund Committee, Pension Board and, where necessary, the Regulator.

Responsibilities of the responsible officer

The Council's monitoring officer will be responsible for the management and execution of this breaches policy.

The monitoring officer will be responsible for recording and reporting breaches and likely breaches as follows:

- record all identified breaches and likely breaches of which they are aware in the Council's breaches log;
- investigate the circumstances of all reported breaches and likely breaches;
- ensure, where necessary, that an action plan is put in place and acted on to correct the identified breach and also ensure further breaches of a similar nature do not recur;
- report to the Pension Fund Committee and Pension Board:

  - all materially significant breaches or likely breaches that will require reporting to the Regulator as soon as practicable, but no later than one month after becoming aware of the breach or likely breach; and

  - all other breaches at least quarterly as part of the Committee cycle.
- report all materially significant breaches to the Regulator as soon as practicable but not later than one month after becoming aware of the breach.

The monitoring officer will determine whether any breach or likely breach is materially significant, having regard to the guidance set out in the Code of Practice and after consultation with parties they deem appropriate. Such parties might include the Head of Legal Services, the Pension Fund Committee and Pension Board.

If appropriate, the matter will be referred to an external party to obtain any necessary legal or other advice before deciding if the breach is considered to be of material significance to the Regulator. Where uncertainty exists as to the materiality of any identified breach the Council, officers or Pension Board will be required to informally notify the Regulator of the issue and the steps being taken to resolve the issue.

How should a breach be reported to the Regulator?

All materially significant breaches must be reported to the Regulator in writing. This can be via post or electronically. The Regulator encourages the use of its standard reporting facility via its Exchange on-line service.

The Council will report all material breaches to the Regulator via Exchange.

How are records of breaches maintained?

All breaches and likely breaches identified are to be reported to the monitoring officer as soon as they are identified. The monitoring officer will log all breaches on the Council's breaches log, including the following information:

- date the breach or likely breach was identified;
- name of the scheme;
- name of the employer (where appropriate);
- any relevant dates;

- a description of the breach, its cause and effect, including the reasons it is, or is not, believed to be of material significance;
- whether the breach is considered to be red, amber or green.
- a description of the actions taken to rectify the breach;
- a brief descriptions of any longer term implications and actions required to prevent similar types of breaches recurring in the future.

The monitoring officer will be responsible for ensuring the effective management and rectification of any breach identified, including submission of any report to the Regulator. Any documentation supporting the breach will also be retained.

Whistleblowing

It is a statutory duty to report breaches of the law. In rare cases this may involve a duty to whistleblow on the part of an employee of the Council, officers or a member of the Pension Board. The duty to report does not override any other duties a "reporter" may have, such as confidentiality. Any such duty is not breached by reporting to the Regulator. Given the statutory duty that exists, in exercising this breaches policy the Council will ensure it adheres to the requirements of the Employment Rights Act 1996 in protecting an employee making a whistleblowing disclosure to the Regulator.

The duty to report, however, does not override 'legal privilege', so certain oral and written communications between the Council or Pension Board and a professional legal adviser do not have to be disclosed if they meet the principles of legal privilege.

Training

The section 151 officer will ensure that all relevant officers and elected members, as well as members of the local pension board receive appropriate training on this policy at the commencement of their employment or appointment to the local pension board as appropriate and on an ongoing basis.

Appendix A

Example scenarios

1. Failure to enter employee into the scheme

Scenario

It is discovered that a scheme employer has not entered an eligible employee into the LGPS on joining

Steps that might be taken

On the face of it a breach will have occurred, as the scheme employer has failed to do something they are required to do under the rule of the LGPS. Before deciding to report to the Pensions Regulator it is necessary to consider why this has happened and the steps that are being taken to either rectify the situation and/or ensure it is not repeated. This will include:

- Assessing whether failure relates to a specific employee or is it something more widespread
- Remedying this particular situation immediately
- Understanding if there have been personnel changes at the employer; has this resulted in teething problems during any hand-over?
- If necessary the Fund could provide training to the employer on its responsibilities to ensure there is no repeated failure

Materiality

When considering if the delay/failure is likely to be of "material significance" you could consider;

- Has the member been denied access to the scheme completely?
- Has the employer failed to respond to the Fund's enquiries?
- Has the member not been given the opportunity to backdate entry to the scheme and pay arrears?
- Has the employer failed to put in place an immediate plan to remedy any further failures?
- Are more members affected, or is this a one-off?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

2. Late payment over of contributions

Scenario

A scheme employer is late in paying over employee and employer contributions

Steps that might be taken

The reasons for the delayed payment could many, so while a breach has clearly occurred it is important to understand the reasons behind the delay. To do this:

- Contact the employer to assess the reason for the delay
- Investigate what went wrong

- Ensure steps are put in place so as to avoid a repeat in future months
- Record the outcome of your investigation
- Make sure processes are assessed to ensure they pick up any potential fraud

Materiality
While the reason for the delay in paying over contributions might be entirely innocent, it is also possible something more sinister is at play and could be "materially significant". Consider;

- Is the employer unwilling or unable to pay? e.g. due to insolvency
- Is any dishonesty involved on the part of the employer? e.g. using non-payment to ease cash-flow
- Is the employer seeking to avoid paying contributions?
- Does the employer have inadequate processes in place to recover contributions?
- Have contributions been outstanding for over 90 days since being identified?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

3. Late Submission of year-end data

Scenario
A scheme employer is late in submitting year-end pay and contribution return in respect of active scheme members

Steps that might be taken
On the face of it this is a breach, but the employer may not necessarily appreciate the significance. Things you might consider doing include:

- Contacting the employer to assess the reason for the non-submission
- Investigating with the employer what went wrong
- Putting in place steps to ensure no repeat
- Recording your investigations

Materiality
Is the delay/failure likely to be of "material significance"? Consider;

- Is the employer unwilling or unable to provide the required data? e.g. are its systems adequate
- Has the employer failed to respond to the Fund's enquiries?
- Will the delay impact the issue of annual benefit statements?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

4. Late issue of annual benefit statements

Scenario

The Fund is late/fails to issue annual benefit statements to active and/or deferred scheme members within the statutory time limits.

Steps that might be taken

Failure to issue annual benefit statements or delaying their issue is a clear breach. Before reporting to the Pensions Regulator:

- Assess whether failure relates to a specific employer or wider issues
- If there have been system or scheme rule changes, determine whether teething problems have contributed to the delay/failure
- Put in place steps to ensure statements are issued within a reasonable timescale
- Put in place steps to ensure no repeat
- Record the investigations

Materiality

Is the delay/failure likely to be of “material significance”? Consider;

- Is the breach resulting from employer failure to provide year-end data?
- Has the employer failed to respond to the Fund’s enquiries?
- Has there been a failure on the part of the Fund to have a proper plan in place for the ABS project?
- Has the Fund failed to put in place an immediate plan to remedy any delay/failure?
- Will the delay impact on the member’s actual benefits?

If the answer to any of the above is “yes” this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council’s breaches log.

5. Late notification of leaver/retirement details

Scenario

A scheme employer fails to provide the Fund with the necessary leaver/retirement notifications

Steps that might be taken

On the face of it a breach will have occurred, as the scheme employer has failed to do something they are required to do under the LGPS Regulations. Before deciding to report to the Pensions Regulator it is necessary to consider why this has happened and the steps that are being taken to either rectify the situation and/or ensure it is not repeated.

- Assess whether failure relates to a specific employee or is it something more widespread
- Remedy this particular situation immediately
- If there have been personnel changes at the employer, has this resulted in teething problems during any hand-over
- If necessary the Fund could provide training to the employer on its responsibilities to ensure there is no repeated failure

Materiality
Is the delay/failure likely to be of "material significance"? Consider;

- Has the employer failed to respond to the Fund's enquiries?
- Has the failure delayed the assessment and notification/payment of retirement benefits?
- Has the scheme member been denied access to investment opportunities due to the failure?
- Has the failure led to financial hardship for the member?
- Has the Fund failed to put in place an immediate plan to remedy any delay/failure?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

6. Failure to declare potential conflict

Scenario
A Pension Committee or Pension Board member fails to declare a potential conflict of interest in relation to an issue for discussion or decision, which has later come to light

Steps that might be taken
It is a requirement to declare conflicts of interest, so a breach will have occurred. Before deciding whether to report to the Pensions Regulator:

- Determine why the conflict of interest was not reported at the outset
- Consider what impact it had on the eventual discussions or decision
- Draw attention of all Committee and Board members to the Council's conflicts of interest policy
- Consider revisiting the discussion or decision, excluding the individual concerned
- Remove the individual from the Pension Committee or Pension Board if considered their omission was of such significance as to lead to a loss of confidence in the public office

Materiality
Is the non-disclosure likely to be of "material significance"? Consider;

- Has the individual used the situation to their advantage?
- Has the individual had their judgement swayed by the apparent conflict of interest?
- Would the removal of the individual from the discussions/decision have altered the eventual outcome?
- Would the non-disclosure in this situation lead to a loss of confidence in the public office?

If the answer to any of the above is "yes" this may imply materiality and may warrant reporting to the Pensions Regulator. In any event the issue should be added to the Council's breaches log.

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2017
Subject:	**Information Report** - Performance Measurement Services
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Local Authority Pension Performance Initial Indicators Q2 2016 Local Authority Pension Performance Initial Indicators September Quarter 2016 Local Authority Pension Performance Initial Indicators December Quarter 2016

Section 1 – Summary

This report advises the Committee of the latest position in respect of the performance measurement services being provided by Pension and Investment Consultants Limited

FOR INFORMATION

Section 2 – Report

1. At their meeting on 6 September 2016 the Committee received a report advising them of developments in connection with the provision of performance measurement services for the Fund. They agreed to subscribe to a service provided by Pension and Investment Consultants Limited (PIRC) at a cost of £3,000 in 2016-17 and £4,500 for subsequent years

2. The contract stipulates the services to be provided as:

    - Participation in the Local Authority Universe – fund and portfolio data reviewed, standardised and incorporated in the aggregate
    - Provision of quarterly and annual Universe results and analysis
    - Provision of annual league tables and analysis
    - Provision of Universe research

3. PIRC also offer individual / bespoke consultancy at additional costs

4. The Fund's historic data, received from the previous performance measurement consultant, State Street Global Services has been passed to PIRC for use in their longer term statistical analysis. Current data for periods ending 30 September 2016 and 31 December 2016 has also been provided to them.

5. The PIRC universe now comprises 56 Local Government Pension Scheme funds with a value of £115bn. Whilst this universe is somewhat smaller than the approximately 90 funds in the State Street universe and may be unsuitable for league tables, the performance data is still valuable.

6. In accordance with the contract PIRC have provided their quarterly analysis for the periods ending 30 June, 30 September and 31 December 2016. These are attached to the report. Included in the reports are PIRC's calculation of the quarterly average Local Authority pension fund returns. The returns calculated for the three separate quarters were 5.6%, 6.4% and 3.2% respectively. These returns are broadly in line with the Fund's increase in value of 5.2%, 6.9% and 3.7%.

7. It is recognised that the comparison detailed above is not entirely on a like-for-like basis and work is continuing to seek improvements in the reporting service.

Financial Implications

8. Whilst the performance of the Fund's investments plays an extremely important part in the financial standing of the Pension Fund there are no financial implications arising directly from this report.

Risk Management Implications

9. The risks arising from investment performance are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	✓	Chief Financial Officer
Date:	23 February 2017		

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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Local Authority Pension Performance Initial Indicators Q2 2016

Latest Quarter

In the period to end June 2016 we expect that the average Local Authority pension fund returned **5.6%**, the best quarterly result of the last three years. This result was perhaps surprising given the uncertainty that surrounded markets.

The EU referendum was the key influencer of markets in the quarter to end June. Optimism and an increased level of certainty about the UK staying in was replaced by shock when the country voted to leave.

The immediate response was a lowering of growth expectations but this did not result in any immediate new fiscal measures with interest rates remaining unchanged and no new quantitative easing implemented.

Gilt yields had lowered prior to the EU vote before falling sharply afterwards with ultra-long gilts ending the quarter at a historic low of 1.6%

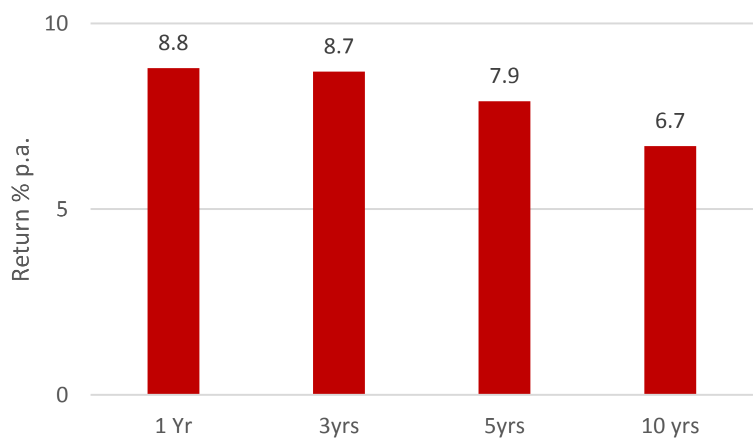
Global equities were up slightly over the quarter but most UK pension funds are unhedged and therefore these gains were greatly enhanced by the relative strength of all currencies relative to Sterling.

UK equities performed relatively well given the shock news of the referendum decision – this was largely because of the relatively high level of overseas earnings amongst the largest quoted companies, while oil & gas stocks continued their recent momentum due to the current commodity price recovery.

Longer Term

Despite recent volatility the longer term results are extremely strong, with the average fund returning in excess of 6% pa over all longer term periods- well ahead of inflation and actuarial assumptions.

Local Authority Pension Fund Long Term Returns



The latest quarter indicators are based on the final asset allocation of the PIRC Local Authority Universe with index returns applied. Long term results are built up from the PIRC Local Authority Universe. As at end March this Universe was valued at £70 bn. The historical returns have a near perfect correlation with the results previously provided by State Street/ WM Company (Correlation = 1.00)

For further information or information about subscribing to this service please contact:

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David Cullinan

Local Authority Pension Performance Analytics

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The latest quarter indicators are based on the final asset allocation of the PIRC Local Authority Universe with index returns applied. Long term results are built up from the PIRC Local Authority Universe. As at end March this Universe was valued at £70 bn. The historical returns have a near perfect correlation with the results previously provided by State Street/ WM Company (Correlation = 1.00)

Local Authority Pension Performance Initial Indicators September Quarter 2016

Latest Quarter

In the three months to end September, we estimate that the average LGPS fund returned 6.4%.

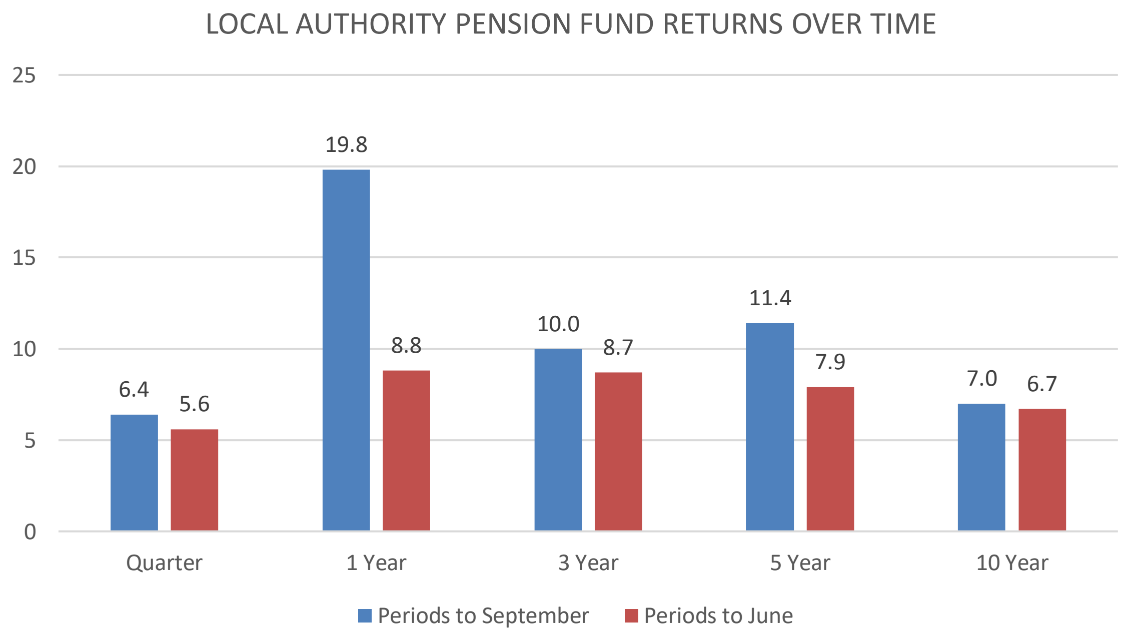
Equity markets continued the momentum built up towards the end of the previous quarter, helped by growing investor confidence in central banks' willingness to support economic activity whilst sterling weakness boosted returns for UK investors. All regions generated positive returns with emerging markets the standout performer.

Following the Bank of England's decision to reduce interest rates by 0.25%, gilt yields tracked lower and prices higher over the quarter. Index-linked gilts performed particularly strongly returning 10% over the three months lifted by sterling's weakness and higher commodity prices. Corporate bonds also delivered positive returns buoyed by the general appetite for risk assets. Real estate performance was notably weaker over the period.

Longer Term

We estimate that the average fund has returned almost 20% over the last twelve months and 10% p.a. over the last three years. The returns for the three and five years are extremely strong while returns in the region of 7% p.a. over the decade have significantly outpaced inflation.

The long term results to the end of June 2016 are all well ahead of the results for the same periods to the end of March as can be seen below.



The returns for the latest period are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The Universe is currently comprised of 56 funds with a value of £110bn.

PIRC Limited is regulated by the Financial Conduct Authority.

For further details or for information about subscribing to this service please contact:

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Local Authority Pension Performance Initial Indicators December Quarter 2016

Latest Quarter

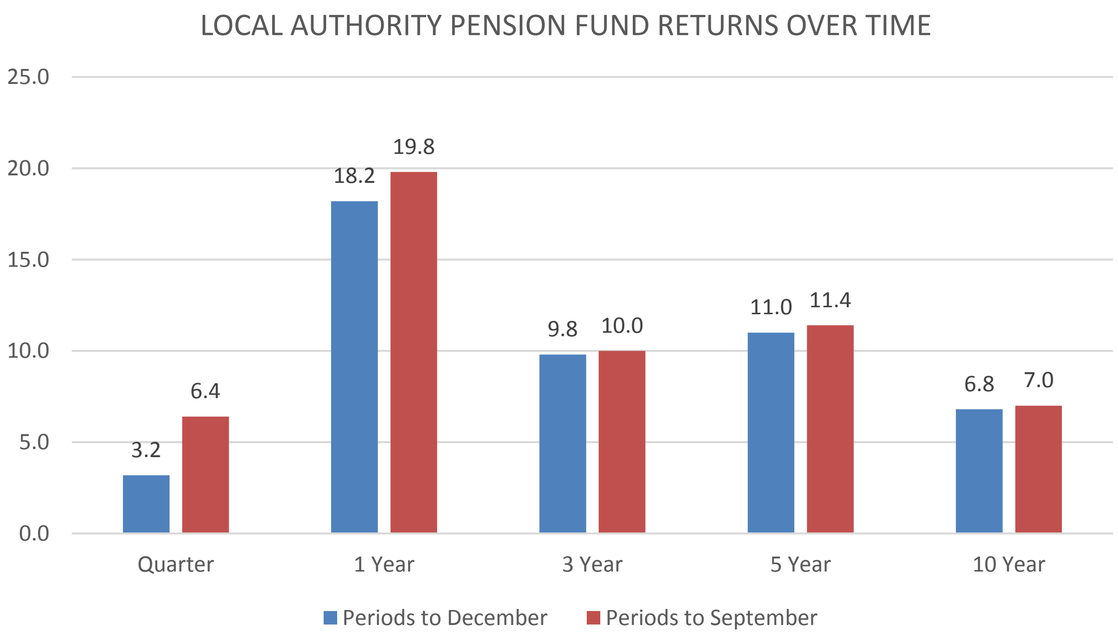
In the three months to end December, we estimate that the average LGPS fund returned 3.2% and a very healthy 18.2% over the calendar year.

Undoubtedly, the quarter was dominated by events unfolding in the US following Donald Trump's election victory. Many commentators predicted a market slump but in actual fact, equities rallied. Interestingly and more significantly, markets were impacted more by moves in currency and bond markets - Sterling weakened further over the quarter whilst bond yields rose. Developed equity markets all delivered positive returns led by financials and oil & gas sectors. Emerging markets in contrast, struggled following the election result.

With bond yields edging higher, key nominal and index-linked indices lost around 3%. Real estate recovered a little ground after a weak previous quarter.

Longer Term

We estimate that the average fund has returned almost 10%p.a. over the last three years, 11%p.a. over the last five and 7%p.a. over the decade, markedly outpacing inflation and, importantly, ahead of actuarial assumptions.



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REPORT FOR: **Pension Fund Committ**

Date of Meeting:	7 March 2017
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 Recommendation

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 2018 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
    - Draft work programme for 2017-18 (Sub-section B)
    - Performance of fund managers for periods ended 31 December 2016 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2017-18

2. Below is a draft for the Committee to consider as its programme of work for 2017-18.

28 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 Strategy Review
Investment manager monitoring
Pooling and London Collective Investment Vehicle
Review of risk register
Draft Annual Report and Financial Statements 2016-17
Performance Review 2016-17
Quarterly trigger monitoring
Property investment
Medium term cashflow
Monitoring of operational controls at Longview and Insight
Review of Actuarial and Investment Consultancy contracts
Training programme
Environmental, social and governance issues including Stewardship Code
Training session at 5.30 – London CIV

18 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
Audited Annual Report and Financial Statements 2016-17
Management expenses
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

September 2017 – "Meet the Managers"

21 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
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

7 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 31 December 2016 and 31 January 2017

5. Attached is a table summarising the Fund valuation at 31 December 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 31 December 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 December 2016 had increased over the year to date from £661m to £770m (16.5%).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 significant percentage increase in the bonds portfolio. The Fund’s hedging strategy has, of course, mitigated some of the gains. At the end of January 2017 the value of the Fund had increased to £776m.

8. As agreed by the Committee, during the quarter ended 31 December 2016 a re-balancing exercise was carried out whereby a sum of £20m was withdrawn from the State Street global equities mandate and transferred to the Aviva property mandate (£10m) and cash to fund the currency hedging costs (£10m)

9. The one year return from December 2015 of 18%, increasing the value of the Fund from £651m to £770m, was the result mainly of outstanding returns from equities (22.6%) and bonds (16.7%) partly offset by minimal returns from the property and DGF portfolios..

D Meeting of Pension Board on 7 March 2017

10. The Pension Board met at 2.00 on 7 March with the following agenda:

- Insurance Cover for the Board
- Actuarial Valuation
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Governance Compliance Statement
- Policy for Reporting Breaches of the Law
- Performance Monitoring of Pensions Administration Service
- External Audit Plan 2016-17
- Pension Fund Committee Meeting – 22 November 2016
- Annual Review of Internal Controls at Investment Managers.

11. Any matters raised by the Board and not considered elsewhere on the agenda will be reported verbally

Financial Implications

12. 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

13. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

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 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	✓	Director of Finance
Date: 23 February 2017		
Name: Caroline Eccles	✓	on behalf of the Monitoring Officer
Date: 23 February 2017		

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

31st December and 31st January 2017

Asset Class	Value 31.03.2016 £'000	Value 31.12.2016 £'000	Value 31.01.2017 £'000	Movement YTD (Mar to Jan17)	Allocation 31.01.2017 %	Strategic Allocation %	Strategic Range %
Global Equities							
Longview (Hedged)	75,499	81,068	82,473	**9.24%**	11	11	
State Street	219,424	253,222	255,452	**16.42%**	33	31	
GMO	71,463	85,549	87,649	**22.65%**	11	10	
Oldfields	70,701	101,215	102,383	**44.81%**	12	10	
Total Global Equities	437,087	521,053	527,957				
Total Equities	**437,087**	**521,053**	**527,957**	**20.79%**	**67**	**62**	**58-68**
Private Equity							
Pantheon	20,571	21,132	21,132	**2.73%**			
Total Private Equity	20,571	21,132	21,132		3	5	4-6
Property							
Aviva	53,481	63,479	63,572	**18.87%**			
Total - property	53,481	63,479	63,572		8	10	8-12
Bonds							
Blackrock - FI	69,401	78,751	76,419	**10.11%**	10	10	10
Blackrock - IL	17,577	19,743	19,562	**11.29%**	3	3	3
Total Bonds	86,978	98,494	95,981	**10.35%**	13	13	11-15
Alternatives							
Insight	27,071	28,286	28,360	**4.76%**	4	5	5
Standard Life	29,216	29,403	29,331	**0.39%**	4	5	5
Total Alternatives	56,287	57,689	57,691	**2.49%**	8	10	8-12
Cash & NCA							
Cash Managers	44	52	816				
Cash NatWest	10,048	12,452	5,932				
Record passive currency hedge	-6,388	-6,090	390				
Cash Custodian (JP Morgan)	1,437	2	10				
Debtors and Creditors	1,306	1,926	2,275				
CIV Investment	150	150	150				
Total Net Current Assets	6,597	8,492	9,573		1	0	
Total Assets	661,001	770,340	775,906	**17.38%**	100	100	

REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2017
Subject:	Quarterly Trigger Monitoring Q4 2016
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Quarterly Trigger Monitoring Q4 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

The Committee is recommended to consider the attached report from Aon Hewitt and agree 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. Attached is the report for the period up to 31 December 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: 22 February 2017	✓	Director of Finance
Name: Caroline Eccles Date: 23 February 2017	✓	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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Aon Hewitt

London Borough of Harrow Pension Fund ('the Fund')
Date: 7 March 2017
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring - Q4 2016

Introduction

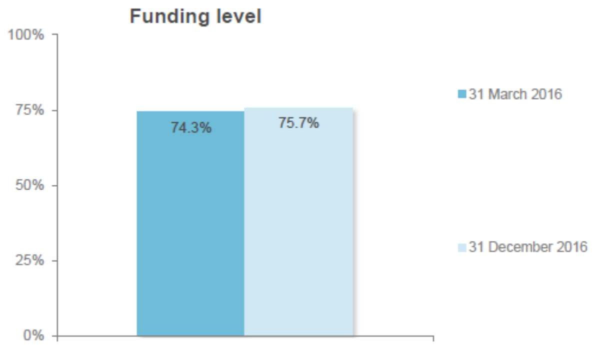
The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

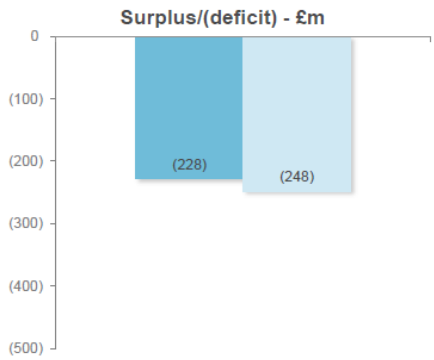
- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields

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 funding level as at 31 December 2016 was 75.7%, compared to 74.3% as at 31 March 2016.



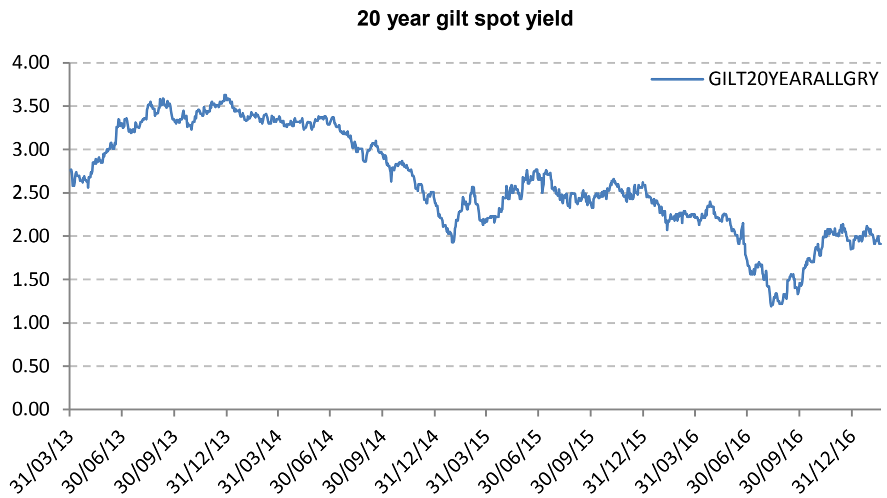


Source: Hymans Robertson

Empower Results®

20 year spot yield

The chart below shows the movement of the 20 year spot yield since 31 March 2013 to 19 February 2017. Yields ended the fourth quarter of 2016 at c.1.9% and, following a small rise and fall post the year end, remain at a similar level of c.1.9% as at 19 February 2017.



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 9 February 2017.

Summary of market spot and forward rates versus Aon Hewitt's views

	9 February 2017	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.7%	-1.5%	-0.9%	+0.6%	-1.5%	-0.7%	+0.8%
Nominal	+2.0%	+2.3%	+2.5%	+0.2%	+2.4%	+2.8%	+0.4%
Breakeven*	+3.8%	+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:	7 March 2017
Subject:	**Information Report** – External Audit Plan 2016-17
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix: External Audit Plan 2016/17 - KPMG

Section 1 – Summary

The report advises the Committee of the external audit plan for 2016-17 as presented by KPMG to Governance, Audit, Risk Management and Standards Committee on 31 January 2017.

FOR INFORMATION

Section 2 – Report

1. The Council has received the External Audit Plan 2016/17 as prepared by KPMG and presented to Governance, Audit, Risk Management and Standards Committee on 31 January 2017. The Plan, which includes the audit of the Pension Fund, is attached as the appendix to this report.

2. Broadly, the Plan covers:

   - Headlines
   - Introduction
   - Financial statements audit planning
   - Value for money arrangements work
   - Other matters

3. In addition to the overall audit of the Pension Fund the auditors have made the following specific points:

   - Materiality - £10m (page 2 of Plan)
   - Uncorrected omissions or misstatements to be reported by the Auditor - £500,000 (page 2 of Plan)
   - Significant risk – Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation (pages 2 and 5 of Plan)
   - Significant risk – Valuation of pension fund assets (pages 2 and 6 of Plan)
   - Other areas of audit focus – Calculation of benefits (pages 2 and 7 of Plan)

Financial Implications

4. Whilst, clearly, the annual audit concentrates largely on the financial state of the Pension 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 all the risks identified. The annual audit assists in the management of the risks but no implications arise directly from this report.

Equalities implications

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

Council Priorities

7. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	√	Director of Finance
Date:	13 February 2017		

Ward Councillors notified: **NO**

Section 4 - Contact Details

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

Background Papers – None.

KPMG

External Audit Plan 2016/2017

London Borough of Harrow and Pension Fund
10 January 2017


KPMG
The Local Government Landscape
DCLG
DFE
NHS
DWP
CYBER SECURITY
FINANCIAL PRESSURES
LEPS
£55M
INWARD INVESTMENT
ENTERPRISE ZONE
£10.5M
£8.5M
ECONOMIC GROWTH
SCIENCE PARK
THE GENERAL PUBLIC
CITIZENS TAKING RESPONSIBILITY
HEALTH CENTRES
£10.5M
SCHOOLS
£5.5M
£4M
RECYCLING CENTRE
DEMOGRAPHIC CHANGE
FOR SALE
PLANNING REPORT
MANAGE
DEVOLUTION
CARE MODEL REFORM
WHOLE PERSON CARE
Cloud services
ISSUE
OUTSOURCE
Off shore services
ISSUE
P45
COMPLEX DEPENDENCY
SUPPORTING INDIVIDUALS
SERVICES working together
OLD SYSTEM
NEW SYSTEM
NHS
DWP
DCLG
APPOINTMENT
FINANCE MODELS
HOUSING
FUNDING
Council tax
Business rate
Fees & Charges
MY FUTURE
ISSUE
TRAINING
OPERATIONAL EFFECTIVENESS
OPERATING MODELS
Legislation
MAYORAL ELECTION
s114
OVERSIGHT
BIG DATA
We are a Living Wage Employer
PUBLIC
PRIVATE
PARTNERSHIPS
WORKING TOGETHER
Ofsted
REPORT

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been set at £8 million for the Authority and £10 million for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £400k for the Authority and £500k for the Pension Fund.

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Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls,
- Fraudulent revenue recognition;
- Valuation of Plant, Property and Equipment;
- Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation; and
- Valuation of pension fund assets.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Regeneration programme;
- Grant income recognition; and
- Calculation of benefits (Pension Fund).

See page 7 for more details.

Value for Money Arrangements work

Our risk assessment is ongoing and we will report any additional VFM significant risks during our audit. At this stage we consider that Financial resilience will be treated as a significant risk reflecting the relatively low level of reserves that the Authority has and the need to make significant cost savings in future years.

See pages 8 to 13 for more details

Logistics

Our team is:

- Andy Sayers, Partner
- Emma Larcombe, Senior Manager
- Alex Bradley, Assistant manager

More details are on **page 16.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15.**

Our fee for the audit is £150,725 (£150,725 2015/2016) for the Authority and £21,000 (£21,000 2015/16) for the Pension Fund see **page 14.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

Our audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning → Control Evaluation → Substantive Procedures → Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the initial findings of our VFM risk assessment.

Risk Assessment → Identification of significant VFM risks → VFM audit work → Conclude → Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2016 to January 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

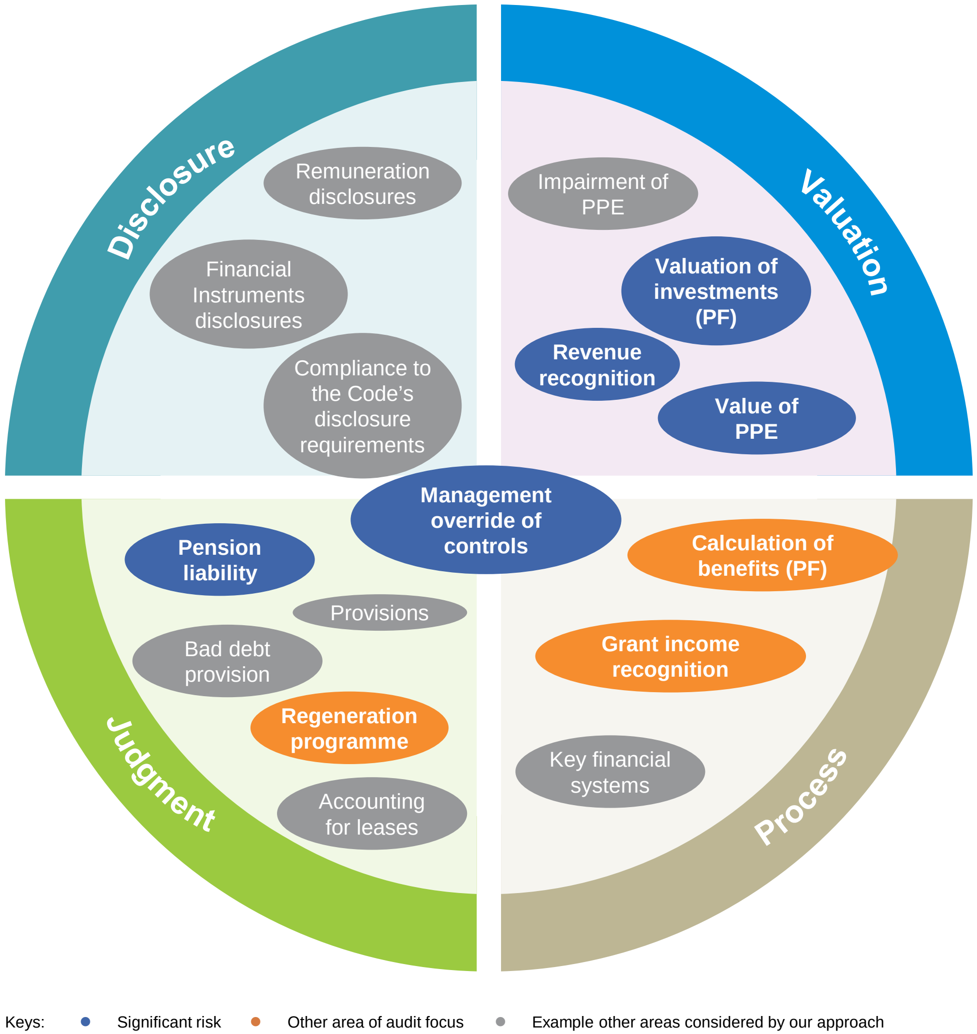
Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition –We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks Administering Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Valuation of Property, Plant and Equipment

In 2015/16 the Authority reported Property, Plant and Equipment in its financial statements of £1,030 million. The Authority must exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure that the carrying values recorded each year reflect those fair values.

Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be a significant audit risk for 2016/17.

Approach: We will undertake detailed testing of Property, Plant and Equipment as part of our final accounts audit, including specific detailed testing of the asset valuation. We will critically analyse the valuation methodology adopted by the Authority's valuer and benchmark this against national indices in order to confirm that the valuation is reasonable.

We will consider the basis on which the valuation has been carried out to ensure it is in line with *The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17*. We will carry out detailed testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements.

Significant Audit Risks Administering Authority and Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

Whilst the Pension Fund only includes limited disclosures around pensions liabilities the Authorities share of the pension liabilities represent a significant element of the Authority's balance sheet.

Further there are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.

Approach : As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

We will also review the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO.

Financial statements audit planning (cont.)

Significant Audit Risks - Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Valuation of Pension Fund assets

At the 31 March 2016 the Pension Fund had investments of £655 million. The investment portfolio includes private equity and derivatives both of which are complex to value and, in the case of private equity, include a degree of judgement from the Fund Manager. Given the complexity surrounding the investment portfolio we consider this to be a significant audit risk for 2016/17.

Approach: We will undertake detailed testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from Fund Managers to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements and comparing performance to known benchmarks and, if appropriate, engaging our specialist valuation team.

KPMG

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Regeneration programme

- Issue: The regeneration programme is part of the Authority's 'Building a better Harrow' regeneration strategy, which lays out plans for £1.75 billion investment in the Borough in the period 2014-2026. Of which c.£11m is to be funded directly b the Authority through the redevelopment of several sites across the Borough including the Civic Centre. Work has begun on the detailed design phases and therefore capital costs will be incurred in 2016-17 in relation to the regeneration program. The Authority must exercise judgement in determining the fair value of assets under construction and the methods used to ensure that the carrying values recorded each year reflect those fair values.
- Approach: We will undertake detailed testing of assets under construction as part of our final accounts audit, including specific detailed testing of the valuation of the Civic Centre.

Calculation of benefits (PF)

- Issue: The calculation of benefits can be complex. In 2015/16 a total of £31 million was paid out by the fund. Given the quantity and complexity of these calculations there is a risk of misstatement.
- Approach: We will complete detailed sample testing over benefits paid and complete a substantive analytical review over the total benefits paid in year.

Grant income recognition

- Issue: In 2015/16 the total government grants and contributions recognised was £407 million, and total capital grants deferred was £3.9 million. Accounting for grant income is complex as the basis for revenue recognition in the financial statements will vary depending on the individual conditions associated with each grant. In addition Management must apply judgement to determine if such conditions are attached to a grant and if they have been met.
- Approach: We will perform substantive testing over a sample of revenue and capital grants received during the year. We will review grant correspondence and assess if the Authority has recognised the income in accordance with the CIPFA Code and grant agreement.

Financial statements audit planning (cont.)

Materiality

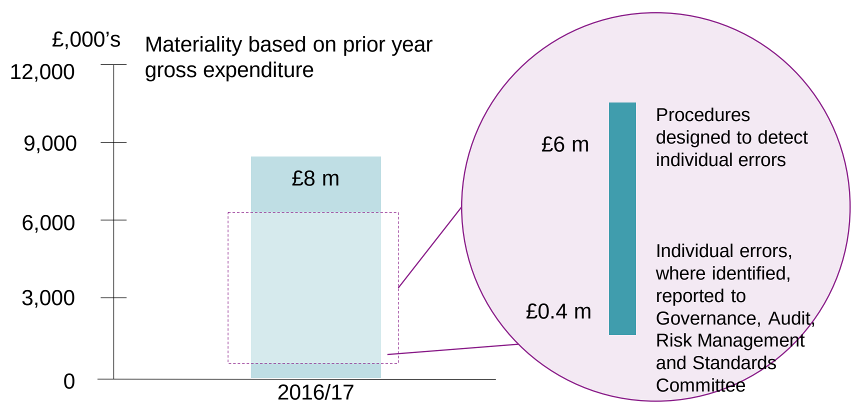
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent ‘misstatements’ unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £8 million for the Authority’s standalone accounts, which equates to 1.5 percent of gross expenditure.

289 the Pension Fund, materiality for planning purposes has been set at £10 million which ates to 1.5% of current assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.



Reporting to the Governance, Audit, Risk Management and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance, Audit, Risk Management and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400k.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial it is less than £500k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance, Audit, Risk Management and Standards Committee to assist it in fulfilling its governance responsibilities.

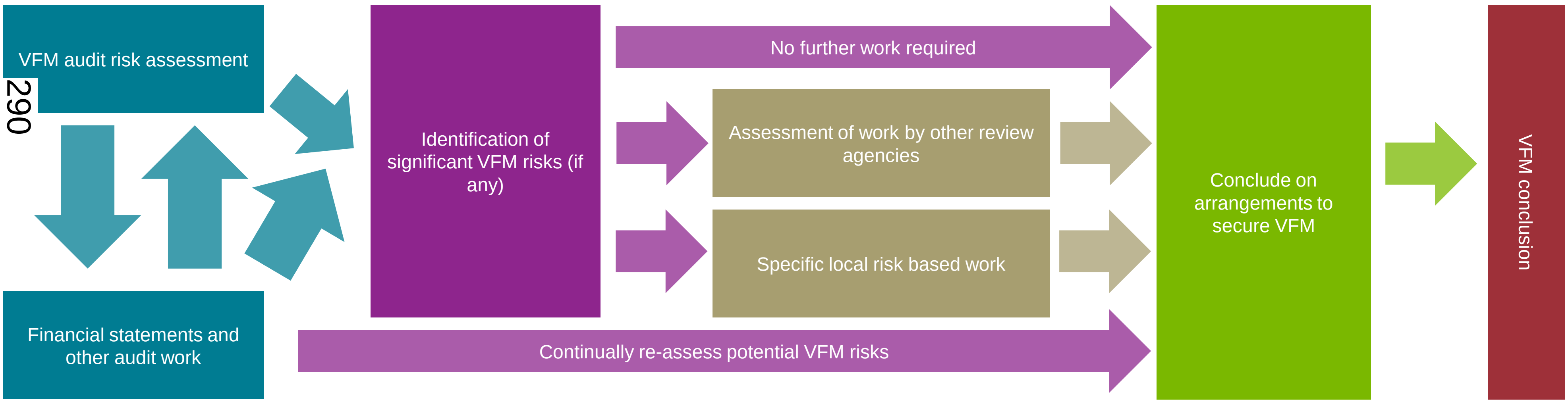
Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



Value for money arrangements work (cont.)

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ▪ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ▪ Evidence gained from previous audit work, including the response to that work; and ▪ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ▪ Considering the results of work by the Authority, inspectorates and other review agencies; and ▪ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ▪ Meeting with senior managers across the Authority; ▪ Review of minutes and internal reports; ▪ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	Based on our work in the prior year and our on-going discussions with Management we consider there to be a potential significant VFM risk in relation to financial resilience, which we have set out on the following page. We have not yet completed our full VFM risk assessment and will do so as part of our interim audit. If further significant risks are identified as part of this process we will report them to the Governance, Audit, Risk Management and Standards Committee in an interim report. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work Planning

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Financial resilience

- Risk

  The Authority needs to reduce its budget by £83 million between the period 2015/16 to 2018/19. The Authority's net controllable revenue budget of £141m is the element of the budget that the Council can exercise control over and from where the savings must be found. We have reviewed the Revenue budget for 2016/17 and Medium Term Financial Strategy (MTFS) 2016/17- 2019/20 and noted that £30.9m savings were found in 2015/16 but a further £52.4m need to be found over the three years to 2019/20. There is a risk that the Authority falls short of it's savings targets thereby failing to use its resources in an economical, efficient, and effective way. In addition the Council has low general fund reserves of £10m. These savings need to be achieved in an environment where external funding is decreasing and pressure on service is increasing. The Council needs to ensure that is has robust financial planning arrangements in place.

- Approach

  We will perform work to assess the Authority's financial sustainability. This will include the identification of any significant one-off items included within the reported headline result. We will ensure these are clearly detailed in our ISA 260 report and will provide details on the nature of these items and the underlying deficit position of the Authority. We will also assess the future financial forecasts for the Authority, i.e. the Medium Term Financial Strategy (MTFS) 2016-17- 2019/20. This will include an analysis of the Authority's forecast run rate position as well as considering the core assumptions of the MTFS.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Andy Sayers and supported by Emma Larcombe as in the prior year to ensure continuity on the audit. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance Team and the Governance, Audit, Risk Management and Standards Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £150,724 for the Authority. This is in line with the 2015/16 amount of £150,724. The planned audit fee for 2016/17 is £21,000 for the Pension Fund. (2015/16 £21,000).

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Governance, Audit, Risk Management and Standards Committee , Senior Management and audit team

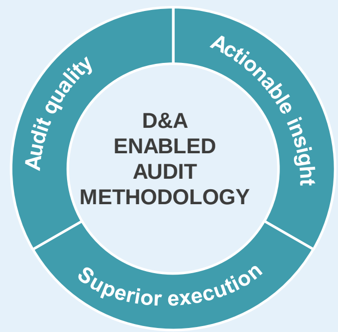
- Audit strategy and plan (Jan)
- Interim report (if required) (Apr)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jul)
- Sign audit opinion (Sep)

Audit workflow

Planning	Control evaluation	Substantive testing	Completion
■ Perform risk assessment procedures and identify risks ■ Determine audit strategy ■ Determine planned audit approach	■ Understand accounting and reporting activities ■ Evaluate design and implementation of selected controls ■ Test operating effectiveness of selected controls ■ Assess control risk and risk of the accounts being misstated	■ Plan substantive procedures ■ Perform substantive procedures ■ Consider if audit evidence is sufficient and appropriate	■ Perform completion procedures ■ Perform overall evaluation ■ Form an audit opinion ■ Governance, Audit, Risk Management and Standards Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Harrow audit last year, with the exception of Alex Bradley, who replaces Jessica Hargreaves as Assistant Manager.

Name	Andy Sayers
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, value added external audit opinion. I will be the main point of contact for the Governance, Audit, Risk Management and Standards Committee and the Chief Executive.

Andy Sayers

Partner

Tel: 07802 975 171

Name	Emma Larcombe
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Andy to ensure we add value. I will liaise with the Dawn Calvert and other Executive Directors.'

Emma Larcombe

Senior Manager

Tel: 07920 257 310

Name	Alex Bradley
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Alex Bradley

Assistant Manager

Tel: 07468 741 364

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Governance, Audit, Risk Management and Standards Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

her to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of January 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, by email to 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.

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2017
Subject:	**Information Report** – Annual Review of Internal Controls at Investment Managers
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix – Review of Internal Controls at Investment Managers

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls reports for eight of the Fund's ten investment managers.

FOR INFORMATION

Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence be carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.

2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust the continued appointment of the manager would be questionable.

3. Each of The Fund's investment managers prepares an annual report having regard to the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/06 (AAF 01/06), issued by the Institute of Chartered Accounts in England and Wales and the control objectives for their services and information technology.

4. Under these protocols the directors/partners of each manager prepare a report focussing on key environmental, business and process issues and make commitments along the following lines:

    - the report describes fairly the control procedures that relate to their stated control objectives;
    - the control procedures are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
    - the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period specified.

5. Each of the managers has engaged a leading firm of auditors to report on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives.

6. A summary of the findings from the most recent reviews is provided in the Appendix. The key points from the findings in respect of the Fund's managers are as follows:

    Aviva Investors

    The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

BlackRock Inc

The audit, carried out by Deloitte and Touche LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

GMO

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

Insight Investment

The “audit year” ended on 31 December 2016, the results of which will be reported to the Committee at their meeting on 28 June 2016.

Longview Partners LLP

The “audit year” ended on 31 December 2016, the results of which will be reported to the Committee at their meeting on 28 June 2016.

Oldfield Partners LLP

The audit, carried out by Deloitte LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

Pantheon

The audit, carried out by KPMG LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

Record Currency Management Ltd

The audit, carried out by Grant Thornton UK LLP, indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response

Standard Life Investments Inc

The audit carried out by KPMG LLP indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

State Street Global Advisors

The audit, carried out by Ernst and Young LLP, indicates that controls are operating effectively and, where shortcomings have been identified, that there has been a satisfactory management response.

Financial Implications

7. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

Risk Management Implications

8. The risks arising from investment performance are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

10. 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:	14 February 2017		

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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Review of Internal Controls at Investment Managers

Aviva Investors

"Report on Internal Controls" for the period 1 October 2015 to 30 September 2016.

Auditors: PricewaterhouseCoopers LLP

In the auditor's opinion, in all material respects:

a) the description in sections D to G fairly presents the Service Organisation's and the included Subservice Organisation's investment management activities for institutional clients and pooled funds as designed and implemented throughout the period from 1 October 2015 to 30 September 2016;

b) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2015 to 30 September 2016 and customers applied the complementary user entity controls referred to in the scope paragraph of this assurance report; and

c) the controls tested which, together with the complementary user entity controls referred to in the scope paragraph of this assurance report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2015 to 30 September 2016.

Of the 262 controls tested by the auditor, 7 exceptions were identified.

These exceptions and the management responses are included at the end of this appendix.

BlackRock Inc

"Report on Controls at BlackRock Placed in Operation and Tests of Operating Effectiveness for Asset Management Services" for the period October 1, 2015 to September 30, 2016.

Auditors: Deloitte and Touche LLP

In the auditor's opinion, in all material respects:

a.) the description fairly presents the System that was designed and implemented throughout the period October 1, 2015 to September 30, 2016;

b.) the controls related to the control objectives stated in the Description of the System were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1, 2015 to September 30, 2016, and user entities applied the complementary user entity controls contemplated in the design of BlackRock's controls throughout the period October 1, 2015 to September 30, 2016;

c.) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description of the System were achieved, operated effectively throughout the period October 1, 2015 to September 30, 2016.

Of the 140 controls tested by the auditor, 5 exceptions were identified:

1) **Page 76 – Control F.1.3** – For 1 of 40 securities selected for testing from a selection of Aladdin's Surveillance Reports, DIG was unable to provide evidence of research and monitoring of missing data.

   Management Response: Management confirmed that the exception related to delayed confirmation of an expected rating for a newly issued security. While evidence of continuous monitoring prior to resolution could not be provided for testing, the expected rating was correctly updated to Not Rated. Management noted that the exception identified had no impact to BlackRock-managed client accounts.

2) **Page 95 – P.1.2** – For 1 of 54 users with administrative access to the AutosysP job scheduler, D and T found that access was no longer authorised at the time of testing. Upon investigation, noted the administrative privileges were not updated upon the user's transfer. Per inspection of the user's account activity, D and T noted the user did not perform any administrative actions while the access was retained and further noted access for this user was remedied upon identification.

Management Response: Management confirmed that administrative access to the AutosysP job scheduler was retained following this user's transfer to a new team. Management confirmed that the user did not perform any actions with this administrative access and removed access upon identification of the issue.

3) **Page 98 – Q.1.3** – For 1 of 56 individuals across transfers and terminations selected for testing , noted the transfer notification was not sent timely. Additionally, as per the testing performed for control Q.1.10, for 1 of 52 users with administrative access to an in-scope database server and 1 of 314 users with administrative access to the BlackRock network, D and T found that transfer notifications were not sent timely.

   Management Response: Management has re-emphasised the importance of the quality and timeliness of HR notifications and are pursuing further automation of the transfer notification process to avoid similar issues in the future.

4) **Page 99 – Q.1.6** – As per the testing performed for control Q.1.10, of 182 users with administrative access to an in-scope database server, D and T found that for 2 users who transferred during the audit period, access was not updated in accordance with policy.

   Management Response: Management confirmed that administrative access was retained following the users' transfer. Management confirmed that the users did not perform any actions with this access, and removed access upon identification of the issue.

5) **Page 100 – Q.1.10** – For 5 separate users with access to IT systems (1 of 52 users with administrative access to an in-scope database server; 1 of 314 users with administrative access to the BlackRock network; and 3 of 182 users with administrative access to another in-scope database server), D and T found user access was no longer authorised at the time of testing . Upon investigation, noted in each instance the administrative privileges were not updated after the users' transfer. Per inspection of the users' activity, noted the users did not perform any administrative actions while the access was retained and further noted access for each of the users was remediated upon identification.

   Management Response: Management confirmed that administrative access was retained following the users' transfer. The users did not perform any actions with this access, which was removed upon identification of the issue. In addition, Management has re-emphasised the importance of the quality and timeliness of HR notifications and are pursuing further automation of the transfer notification process to avoid similar issues in the future.

GMO

"Report On GMO's Description of its Advisory Services System and on the Suitability of the Design and Operating Effectiveness of Controls" for the period October 1, 2015 to September 30, 2016

Auditors: PricewaterhouseCoopers LLP

In the auditor's opinion, in all material respects:

a.) the description fairly presents the Advisory Services System that was designed and implemented throughout the period October 1 2015 to September 30 2016;

b.) the controls related to the control objectives of GMO stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1 2015 to September 30 2016 and user entities applied the complementary user entity controls contemplated in the design of GMO's controls throughout the period October 1 2015 to September 30 2016;

c.) the controls of GMO tested, which together with the complementary user entity controls referred to in the scope section of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period October 1 2015 to September 30 2016.

Of the 147 controls tested by the auditor, 1 exception was identified:

1) **Page 58 – Control 2a** – Re US and UK operational controls for 1 of 40 client account update requests selected for testing, the client's request was not processed timely. PwC selected 24 additional client account update requests and noted no additional exceptions.

   Management Response: Management acknowledges the finding. Management has reinforced the importance of timely communication of client account changes to the Client Operations team for processing and performed additional training.

Oldfield Partners LLP

"AAF 01/06 Assurance Report on Internal Controls" for the period 1 July 2015 to 30 June 2016

Auditors: Deloitte LLP

In the auditor's opinion, in all material respects:

a.) the description on pages 10 to 38 fairly presents the control procedures of Oldfield Partners LLP's investment management services that were designed and implemented throughout the period 1 July 2015 to 30 June 2016;

b.) the controls related to the control objectives stated in the description on pages 10 to 38 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1 July 2015 to 30 June 2016; and

c.) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance, that the related control objectives stated in the description were achieved throughout the period 1 July 2015 to 30 June 2016.

Of the 154 controls tested by the auditor, 1 exception was identified.

1) **Page 31 – Control 7.2.4** – For a sample of 1 out of 2 new joiners there was no documented approval from Head of Operations for access to Eagle IAS.

   Further investigation with Head of Operations revealed that it was appropriate for the new joiner to have access.

Pantheon

"Type II Report on Controls Placed in Operation Relating to Investment Advisory and Management Activities" for the period from 1 October, 2015 to 30 September, 2016

Auditors: KPMG LLP

In the auditor's opinion, in all material respects:

a.) the Description fairly presents the Investment Advisory and Management Activities system as designed and implemented throughout the period from 1 October 2015 to 30 September 2016;

b.) the controls related to the control objectives stated in the Description were suitably designed throughout the period from 1 October 2015 to 30 September 2016; and c.) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period from 1 October 2015 to 30 September 2016.

Of the 112 control objectives tested by the auditor, 1 exception was identified:

1) **Page 50 – Control MF21** – For 1 of 25 samples selected, it was noted that the client fee calculation was not consistent with the relevant legal documentation.

   Management Response: An error was discovered internally identifying an incorrect fee rebate calculation for a Client. Immediately on discovery the Client was contacted and the amount owing to them was repaid. A detailed review of our revenue processes, controls and calculations was carried out as a result. A report covering the issue and remedial actions was circulated by the CFO to the PB and to AMG. Management are comfortable with the investigation and remedial actions which include a higher level of review.

Record Currency Management Ltd

"Report on Internal Controls (AAF 01/06)" for the period 1 April, 2015 to 31 March, 2016.

Auditors: Grant Thornton UK LLP

The auditors confirmed that in all material aspects:

a.) the accompanying report by the directors describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 March 2016;

b.) the control procedures described on pages 11 to 70 are suitably designed such that there is reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures were complied with satisfactorily; and

c.) the control procedures that were tested, as set out in the body of this report, were operating with sufficient effectiveness for us to obtain reasonable, but not absolute, assurance that the related control objectives were achieved in the period 1 April 2015 to 31 March 2016.

Of the 146 controls tested by the auditor, 1 exception was identified.

1) **Page 65 – Control 3.1.6** – It was noted that in one instance write access was granted to more users than had a business need for such access and the spreadsheet formulae were not locked.

   Corrective action has been taken by Management. Subsequent observation of user access confirmed that the relevant spreadsheet had been moved to a restricted area on the network and password protected.

Standard Life Investments

“Internal Controls Report” for 1 October 2014 to 30 September 2015

Auditors: PricewaterhouseCoopers LLP

In the Auditor’s opinion, in all material respects:

a.) the description on pages 23 to 117 fairly presents the in-scope investment management services that were designed and implemented throughout the period from 1 October 2015 to 30 September 2016;

b.) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2015 to 30 September 2016 and clients applied the complementary client controls referred to in the scope paragraph of this report; and

c.) the controls tested which, together with the complementary client controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2015 to 30 September 2016.

Of the 326 controls tested by the auditor, 11 exceptions were identified:

These exceptions and the management responses are included at the end of this appendix.

State Street Global Advisors

“Service Organisation Control Report” July 1, 2015 – June 30, 2016

Auditors: Ernst & Young LLP

In the auditor’s opinion, in all material respects:

a.) the Description fairly presents SSGA’s Investment Advisory System Applicable to the Processing of Client Transactions that was designed and implemented throughout the period July 1, 2015 to June 30, 2016;

b.) the controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period July 1, 2015 to June 30,2016 and if user entities applied the complementary user entity controls contemplated in the design of SSGA’s controls and if State Street’s Information Technology and Global Security divisions applied the controls contemplated in the design of State Street’s controls throughout the period July 1, 2015 to June 30, 2016;

c.) the controls of SSGA tested, which, together with the complementary user entity controls and States Street’s Information Technology and Global Security divisions’ controls referred to in the scope paragraph of this report if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period July 1, 2015 to June 30, 2016.

Of the 160 controls tested by the auditor, 3 exceptions were identified:

1) **Control 1.2** – Out of a combined sample of 88 new or amended funds/accounts, for 1 of 26 new or amended funds/accounts selected for testing in the UK, the English version of the contract used to update extraction forms included a reference to an incorrect regulatory requirement due to an inaccurate translation from the original contract which was identified and corrected by SSGA in advance of trading implementation.

   Management Response: Management acknowledges that for 1 out of 26 new or amended fund/accounts serviced in the UK selected for testing included a reference to an incorrect regulatory requirement due to an inaccurate translation from the original contract which was identified and corrected in advance of trading implementation. Management has enhanced the process whereby translations of all non-English client account contracts will be outsourced to a third party firm.

2) **Control 12.1** – For 1 out of 40 new fee schedules selected for testing, the Fee Extraction Form was not prepared and therefore the new account was not set up on RMS.

Management Response: Management acknowledges that for 1 of 40 new fee schedules selected for testing, the Fee Extraction Form was not prepared and therefore the account was not set up on RMS. Management notes that the fee schedule for the new account was subsequently set up and reflected accurately in the RMS application. Management has reinforced with the appropriate personnel the requirement to review the mailbox at the end of each day to make sure that all new/amended accounts have been identified and processed by the billing team. The Fund Not Set Up compensating review control is in place to prevent significant errors and omissions (refer to control 12.2).

3) **Control 12.1** – For 2 out of 36 amended fee schedules selected for testing, the Fee Extraction Form was not prepared and reviewed and the amendment was not made on RMS.

   Management Response: Management acknowledges that for 2 out of 36 amended fee schedules selected for testing, the Fee Extraction Form was not prepared and therefore the amended fee rates reflected on RMS were not updated. A further review of contract amendments back to the beginning of the year was performed to ensure no further executed amended contracts were missed. Through this review 1 additional item was found. Management notes that the fee schedules for the amended accounts were subsequently set up and reflected accurately in the RMS application. Management has reinforced with the appropriate personnel the requirement to review the mailbox at the end of each day to make sure that all new/amended accounts have been identified and processed by the billing team.

SECTION H: MANAGEMENT RESPONSES TO EXCEPTIONS NOTED

Control Reference	Control Description	Test of Control Procedures and exceptions noted
1.1.1.1	For new and amended IMAs, which includes the establishment and documentation of proxy voting responsibilities, the Client Services team co-ordinates the completion and approval of a checklist by all relevant departments, including reviews and approval by Legal and Compliance; and a regulatory sign-off by Client Services senior management prior to commencement of investing activity	**Reliance on Controls Assurance team** For a sample of new and amended client accounts, inspected IMA execution sign-off checklists for evidence of approval by Client Services, Legal, and Compliance prior to commencement of investing activity. **Exception noted** For 1 out of 40 new IMAs and IMA amendments sampled, relevant department approval of the amendment occurred subsequent to execution.
Management response	The importance of record keeping in respect of amendments to the IMA approvals process has been reinforced to the business. In addition, the Client Services team are working closely with colleagues around the business (including IT) to automate this process which will prevent any future process omissions. We expect this automated process to go-live in the first half of 2017.	
1.1.2.1	New and amended IMAs are signed by the client and Aviva Investors prior to initiating or implementing investment activity.	**Reliance on Controls Assurance team** For a sample of new and amended client accounts, inspected IMA or IMA amendments for evidence that they were signed by individuals authorised on the client's authorised signatories listing prior to the commencement of investment activity. **Exception noted** For 1 out of 16 new IMAs and IMA amendments sampled, the client signatory was not on the authorised signatory list maintained by Aviva Investors.
Management response	A follow-up investigation established this was an isolated incident which has since been fully remediated. The control procedure has been reviewed, deemed satisfactory and re-communicated to the business.	
4.1.1.3	Access to Aviva Investors offices Access Removal - When an employee is marked as a leaver within Workday by People Function, an automated notification is sent to the Property and Facilities team. On receipt of this notification the Property and Facilities team set the individual's physical access card to expire on the specified leave date.	For the full population of terminated employees in the period, inspected evidence that each individual's physical access card had been disabled on the specified leave date. **Exception noted** For 6 out of the total population of 371 leavers in the period, access cards to the Aviva Investors offices were not disabled on the specified leave date.
Management response	After further investigation, it was confirmed that the 6 identified leavers had not used their access cards after their leave date. Upon identification, the identified leavers' cards were subsequently disabled. A daily leaver notification is received from People Function and an expiry date is added. There is also a weekly report from People Function which is checked against the database to ensure leavers have been disabled and access removed, which detected the 6 leavers above.	
4.1.1.4	Access to Aviva Investors offices Automated Disabling - The Granta system is configured to disable physical access passes that have not been used for 30 days.	Inspected evidence that the Granta system has been configured to automatically disable physical access passes which have not been used for 30 days. For the full population of physical access passes that had not been used for 30 or more days, inspected evidence in the Granta system that these had been automatically disabled. **Exception noted** Although the Granta application was configured to disable access cards to the Aviva Investors building if they were not used for 30 days, 60 out of 205 cards were found to still be active after they had not been used for more than 30 days.
Management response	Auto disablement is set up on the system. This has been checked with the vendor and the application housekeeping time has been amended. The system in Poultry will be decommissioned in January 2017 when Aviva Investors relocate to St Helens. Access will then be managed on the UK wide system.	

Control Reference	Control Description	Test of Control Procedures and exceptions noted
4.1.2.3	People Function raises leaver requests for permanent, fixed term contract and temporary staff within Teamworks. IT Security Administration is notified of the leaver request via an automated email and set the Windows AD account to expire within 24 hours of the specified leave date. Depending on the authentication mechanism in place for each application, either IT Security Administration or the application support team then revoke application access within 30 days post the specified leave date. Note: For the Aladdin application 3rd party Blackrock remove the application account on receipt of an approved request from IT Security Administration.	Inspected evidence that leavers' access to the Windows AD network had been revoked within 24 hours of the specified leave date and that access to the applications had been revoked 30 days post the specified leave date. **Exception noted** For 9 out of the total population of 371 leavers in the period, access to the network had not been revoked within 24 hours of the specified leave date. For 2 out of 371 leavers, access to the systems and applications was not revoked 30 days post the leave date.
Management response	Identified gaps have been remediated. The existing monthly Active Directory login inactivity detect control has been enhanced from reviewing inactivity of 90 days to 28 days to aid in identifying potential leavers. An awareness campaign is being developed to educate line managers on the importance of timely notification of leavers which is due for release in January 2017. An additional security administration resource has been on- boarded to enhance removal of leavers from all in scope applications beyond Active Directory, and develop additional detect controls where a leaver notification is not received.	
4.1.2.4	On an bi-annual basis, the Access Governance Team (AGT) re-certifies application, database and network accounts belonging to Aviva Investors users, including the re-certification of privileged access rights. Line managers are asked to approve each user's current level of access rights and system owners are asked to approve the appropriateness of system accounts. Requests for access revocations as a result of the review are sent to the Security Administration team and are actioned within 30 days.	For a sample of standard and privileged Aviva Investors users accounts on the in scope applications, databases and network domain, inspected that access had been reviewed bi-annually within the period. For a sample of resultant access revocation requests, inspected further evidence that users' access had been revoked within 30 days. **Exception noted** For one of the bi-annual reviews performed, the following exceptions were noted: - Members of the Windows Domain Administrators group were not reviewed; and - A user was not included within B-One recertification review.
Management response	Gaps identified have been remediated. Tactical enhancement has been made to logic and associated scripts used to extract users accounts for recertification to include groups identified through testing. Work is in progress to further enhance recertification including completeness testing and is due to be delivered in Q1 2017.	
4.1.2.6	An automated Splunk report is sent daily via email which identifies any laptop without the Safeguard encryption package. An Assyst ticket is raised to resolve the issue and ensure that the device is subject to Safeguard encryption.	**Reliance on Controls Assurance team** For a sample of days in the period, inspected evidence that the automated Splunk report showing laptops without the Safeguard encryption package had been generated and reviewed, and that Assyst tickets were raised to resolve issues. **Exception noted** For a sample of 5 out of 45 laptops identified without the Safeguard encryption package, Assyst tickets had not been raised to resolve the issue.
Management response	The laptops identified in the sample have been encrypted. Recent upgrades to our inventory reporting infrastructure have allowed us to automate the raising of the Assyst ticket, removing the manual and human effort, and also eradicate a number of false positives. This is planned to automate changes which will be fully implemented in December 2016.	

The Service Auditor's tests have identified eleven exceptions. Responses from management in respect of exceptions noted by the Service Auditor in performing testing of Standard Life Investments Limited's controls are presented below to provide additional information to users of this report.

Management Responses to Exceptions Noted

Investment Management

1.	Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
3.5 & 14.3	Amendments, additions or deletions to investment restrictions that require a coding change to Thinkfolio are instructed by Fund Governance to the IRC (Investment Restrictions Control) Onboarding and Coding team to be actioned. Once complete, the IRC Onboarding and Coding team confirm with Fund Governance that all Thinkfolio coding changes have been processed.	**Inspection** For a sample of coding changes during the period, inspected evidence to demonstrate instruction of coding changes from Fund Governance to the IRC Onboarding and Coding team, with the IRC Onboarding and Coding team then confirming the changes had been applied. ***Exception Noted:*** For one out of 16 coding restriction changes sampled, no confirmation from the IRC Onboarding and Coding team was available to demonstrate that the coding change had been applied to Thinkfolio.
Management response		
	Management note that this restriction change process is only relevant to one client and can confirm that the coding change was completed accurately at the time of the instruction. An email has been sent by IRC confirming this retrospectively, and there is system-based evidence which demonstrates the timeliness of the change. Management have also issued a communication to the Fund Governance team in November 2016 to reinforce the importance of obtaining email confirmation from IRC.	

2.	Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
9.1	Corporate actions with decisions due within 3 days on eTRAN are monitored to ensure elections for that day are responded to within the system. An extract from eTRAN containing all Corporate Actions events is saved down and monitored on a daily basis with all Corporate Actions having both a maker and checker to ensure all events have been assessed, notifications have been sent to the front office and all comments are valid.	**Inspections** Observed that Corporate Actions, in relation to SLI funds, are monitored via the eTRAN system by the Global Investment Operation Services (GIOS) team. **Inspection** For a sample of corporate actions, inspected the evidence that the T+3 Due Today queue is monitored and signed off by separate individuals to ensure elections due for that day are responded to within the system and all comments are valid. ***Exception Noted:*** For three out of 20 days sampled, there was no evidence to demonstrate that all Corporate Action events from eTRAN had been subject to maker and checker review.

Management response

Management can confirm that all checks were undertaken for the three days noted. eTRAN uses a system-enforced maker-checker process before notifications can be communicated. Management will ensure a reminder is issued to all team members of the requirement to evidence maker-checker review within the spreadsheet for audit trail purposes.

3.	Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
11.2	For pooled portfolio clients, all client instructions, for subscriptions and withdrawals, are received into the Global Dealing team to be processed in an accurate and timely manner. A processing checklist is used to evidence that appropriate process steps were carried out and that the instruction was reviewed in accordance with financial limits prior to processing on TAP.	**Inspection** For a sample of pooled fund client subscriptions and withdrawal transactions during the period, inspected evidence of completion of the processing checklist by the Global Dealing team and that the instruction was reviewed in accordance with financial limits prior to processing on TAP. ***Exception Noted:*** For one out of 25 client instructions for subscriptions and withdrawals sampled, there was no evidence of additional manager sign-off, as required per the financial limits.

Management response

Management will ensure that a communication is delivered to the Global Dealing team, reinforcing the importance of complying with the internal transaction sign off authority procedures.

4. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
11.4 Twice a day, an automated reconciliation is run between STP and TAP systems, ensuring that all trades from the STP platform have been appropriately processed. Where exceptions occur, appropriate action is taken to ensure the trade is placed in a timely manner.	**Inspection** For a sample of days, inspected evidence that automated reconciliations were performed twice a day by the Global Dealing team to ensure that all STP trades had been correctly processed and any exceptions were followed up. ***Exception Noted:*** For one out of 20 daily reconciliations sampled, it was noted that the same member of the team prepared and subsequently reviewed the reconciliation.

Management response

Management can confirm that additional automated controls are in place which ensure appropriate processing of STP trades.

Management will ensure a communication is issued to the Global Dealing team, reinforcing the requirement for segregation of duties within the sign-off process for the daily reconciliation.

5. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
3.3 The outcome of lease events or variations to existing lease terms already in place are recorded on Tenancy Information forms prepared by the Portfolio Manager or Fund Manager. Where the fund's solicitors draft new leases, they prepare lease summary forms and send these to SLI. These forms are reviewed and signed off by the Portfolio Managers prior to the Property Management System being updated.	**Inspection** For a sample of new leases and lease amendments made during the period, inspected evidence of review and sign-off of tenancy information forms or lease summary forms by Portfolio Managers prior to entry onto the Property Management System.
10.2 Tenancy information forms are completed in relation to each rent review and these are authorised by Portfolio Managers prior to entry onto the Property Management System. Updated rent review details are entered by the System Admin team onto the Property Management System from rent review Tenancy Information forms in a timely manner. This data entry is reviewed by a second person within the team to ensure accuracy.	**Inspections** For a sample of rent reviews conducted during the period, inspected evidence that a Tenancy Information form or Lease Summary form was completed and authorised by Portfolio Managers, prior to entry onto the Property Management System. For the same sample, inspected evidence that the data entry was reviewed by a second person within the team to ensure accuracy. ***Exception Noted:*** For two out of 25 new leases and lease amendments sampled, there was no evidence of Portfolio Manager review and authorisation.

Management response

Management can confirm that for the two instances highlighted, the Property Management System had been updated in a timely manner.

Management will ensure a reminder is sent to the System Administration team of the importance of retaining evidence of Portfolio Manager review and authorisation.

6. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
14.1 On a monthly basis, the Real Estate Operations team produce the Fund Constraints reports for each fund and pass these to IRC in a timely manner. IRC then issue these to Fund Managers for review and feedback on any breaches of investment restrictions. Breaches are included in the Daily Activity log to ensure oversight by senior personnel. The IRC report is attached to all transactional approval memos and commentary included where there is an existing breach of an investment constraint or where the transaction would cause a breach.	**Inspection** For a sample of months, inspected evidence that the Fund Constraints reports were produced by Real Estate Operations team and passed to the IRC team in a timely manner. For the same sample, inspected evidence that IRC sent these to the relevant Fund Manager for review and that the Fund Manager commented on any breaches of investment restrictions. In addition, inspected that any breaches were added to the Daily Activity log and attached to any transactional approval memos. ***Exception Noted:*** For three of 17 in scope UK funds and months sampled, no evidence could be obtained to confirm that IRC had reviewed the Fund Constraints report and sent it to the relevant manager for review.

Management response

Management can confirm that none of the three funds were in breach for the months highlighted and also that there were no property purchases or sales undertaken by those funds during those months.

Management will ensure that a communication is issued to the Investment Restrictions Controls team, reinforcing the importance of ensuring emails of Fund Constraints reports to Fund Managers are issued from the team mailbox.

7.	Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
1.4	Emergency Access is granted via the Critical IT Sites process to the DC and Newbridge DC Machine Hall in instances when the access control system is down. Emergency badges are issued by Datacentre Security (DC), or Pulsant Security (NDC), where there is a valid change or incident record or where there is an emergency situation, which satisfies the Critical IT Sites process.	**Enquiry** Confirmed through enquiry of management that there were no instances of emergency access granted to the DC, George Street Communications Rooms or NDC during the period. ***Exception Noted:*** For one instance of emergency card use in December 2015, there was no documentation supporting the reason for emergency badge use or the access granted, normally demonstrated by a Service Now ticket.

Management response

Management can confirm that this exception related to a card test and not to an authentic instance of Emergency Access. Management will ensure that, for future emergency badge tests, the Security Operations Manager will provide a documented reason for the test.

8. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
2.6 On a weekly basis, privileged access to CRIMS is reviewed for appropriateness by the Global Investment Management Services (GIMS) team. Any inappropriate access is removed on a timely basis. From 1 Oct 15 to 30 Jun 16 For Heritage Ignis, users' account level access to the network and key applications is recertified on at least an annual basis by line managers. Any inappropriate access is removed on a timely basis. From 1 Jul 16 to 30 Sept 16 On a weekly basis, privileged access to ThinkFolio is reviewed for appropriateness by the GIMS team. Any inappropriate access is removed on a timely basis.	**Inspection** For a sample of weeks, inspected evidence that the privileged access to CRIMS was reviewed for appropriateness by the GIMS team and that any inappropriate access was removed on a timely basis. **Enquiry** From 1 Oct 15 to 30 Jun 16 Confirmed through enquiry of management that the annual recertification exercise for Heritage Ignis applications was scheduled for the latter half of the year, in line with historic timings. **Inspection** From 1 Jul 16 to 30 Sep 16 For a sample of weeks, inspected evidence that privileged access to Thinkfolio was reviewed for appropriateness by the GIMS team and that any inappropriate access was removed on a timely basis. ***Exception Noted:*** For six of the 20 weekly reviews sampled, there was no evidence that privileged access to CRIMS had been reviewed for appropriateness in a timely manner.

Management response

Management can confirm that changes to privileged access in CRIMS are rare (e.g. only four additions during 2016) and requires the authorisation of the Global Trading Systems Manager in each case. Management can also confirm that, for the periods covered by the six weeks in question, there were no changes to privileged access and there were also no instances of inappropriate access during the report period. Management will ensure that the GIMS team add an additional weekly check to ensure the report is logged and reviewed in a timely manner.

9. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
2.7 The access rights of leavers to the network are automatically disabled according to the leaving dates as recorded in the HR Management System. Accounts are then automatically deleted 42 days after disablement. For the network and key applications, leavers' access rights are disabled or removed by the Business Application Management Systems Administration teams in a timely manner following notification from HR or the business.	**Observation** Observed that access rights of leavers to the network are automatically disabled according to the leaving dates as recorded in the HR Management System. **Enquiry** Confirmed through enquiry of management that disabled accounts were automatically deleted 42 days after disablement. **Inspection** For a sample of leavers during the period, inspected evidence that the leaver's access to the network and key applications was disabled or deleted in a timely manner.. ***Exception Noted:*** For two out of the 25 leavers sampled, there was no confirmation received from the relevant business area that user access rights to the applicable systems either did not exist or had been removed from the systems.

Management response

Management can confirm that network access has been revoked as required in both cases.
A communication was issued in October 2016 to the relevant business area to reinforce the importance of issuing a timely email response.

10. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
2.9 On a monthly basis Operations IT (OIT) review Windows privileged user activities on a sample basis to detect any unauthorised additions, deletions and modifications of user accounts. In addition, on a daily basis, OIT also complete a review of activities in key business restricted drives. Database access rights are reviewed for appropriateness by the Investments Technology team on a biannual basis.	**Inspections** For a sample of months, inspected the privileged user activities review completed by OIT to detect any unauthorised additions, deletion and modifications of user accounts. For a sample of days, inspected evidence that daily activities in key business restricted drives were reviewed by OIT. For a sample of biannual reviews, inspected evidence that users with access to amend production data were reviewed for appropriateness by the Investments Technology team during the period, with any inappropriate access being removed on a timely basis. ***Exception Noted:*** For one of the 20 daily reports sampled, no report could be obtained to evidence that activities in key business restricted drives had been reviewed.

Management response

Management can confirm that the exception was caused by an isolated incident which was immediately addressed. Management can also confirm that regular testing of privileged user access to restricted drive events has taken place over a number of years and there have been no instances of inappropriate access recorded. No further action is proposed.

11. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
1.2 All critical servers, network equipment (firewalls, routers, switches) and backup media are located in the primary DC. On a quarterly basis, permanent access granted (open access) to these areas is reviewed and updated as required by the Security and Data Centre teams.	**Observation** Observed that critical servers, network equipment (firewalls, routers, switches) and backup media were located in the Communications Room at Bothwell Street. **Enquiry** Confirmed through enquiry of management that the Security and Data Centre team reviewed the open access lists to ensure that only authorised individuals have access, with action taken to update as required. ***Exception Noted:*** For the one quarter sampled, no documentation could be provided to evidence that the review of permanent access had taken place.

Management response
This facility ceased operation on 24 June 2016. Management can confirm that controls in respect of all Ignis-related applications moved into the SLI control environment from 07 December 2015 and that information is available to evidence the performance of these controls to date.

Table showing number of controls tested by each manager and the number of exceptions as reported to Committee in 2015, 2016 and 2017

Fund Manager	Control Objectives Tested	Number of Exceptions	Control Objectives Tested	Number of Exceptions	Control Objectives Tested	Number of Exceptions
	2015 Report	2015 Report	2016 Report	2016 Report	2017 Report	2017 Report
Aviva	177	7	171	8	262	7
BlackRock	138	2	137	4	140	5
GMO	200	1	159	2	147	1
Insight	133	5	133	5	n/a	n/a
Longview	92	0	92	0	n/a	n/a
Oldfields	149	3	153	0	154	1
Pantheon	103	1	107	0	112	1
Record	138	0	137	0	146	1
Standard Life	232	4	334	7	326	11
State Street	156	3	165	4	160	3

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2017
Subject:	**Information Report -** Actuarial and Benefits Services Consultancy and Pension Fund Investment Consultancy Contracts
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services National LGPS Framework for Investment Consultancy Services

Section 1 – Summary

Summary

This report advises the Committee of the current position in respect of the Council's current contracts in respect of actuarial and investment consultancy services.

Harrow COUNCIL LONDON

Section 2 – Report

1. During 2011, specifically in agreements dated 31 October 2011 and 2 November 2011 the Council entered, respectively, into:
    - an "Access Agreement for Actuarial and Benefits Services Consultancy Framework" with Hymans Robertson LLP; and
    - an "Access Agreement for Pension Fund Investment Consultancy Framework" with Aon Hewitt Ltd

2. These "framework" agreements are administered by the London Borough of Croydon.

3. The durations of the contracts are:
    - Actuarial Services – an "initial period" of six years with no option to extend
    - Investment Consultancy – an "initial period" of four years with the option for the Council to extend by two years, an option which was exercised in July 2015

4. However, notwithstanding the dates of the agreements signed by the Council within the agreements is an overriding clause 2.2 which states, inter alia:

    …………..The Access Agreement shall (subject to the provisions for earlier termination set out in Clause 10 of this Access Agreement) expire upon termination or expiry of the Framework Contract.

    The relevant date of the Framework Contract is 18 April 2011 hence the date of termination is 17 April 2017.

5. In line with the existing contracts and good procurement practice it would have been necessary in any case for the Committee to consider the process for awarding new contracts at their meeting on 28 June and to award the contracts on 18 September.

6. Although the contracts terminate on 17 April, the Council will require the services to be provided during the following months. Under the Council's Contract Procedure Rules a waiver can be sought to extend a contract under the particular circumstances.

7. The Divisional Director - Commercial, Contracts and Procurement has indicated that he is prepared to agree a waiver to cover the period of five months from the termination of the current contracts on 17 April to the date of the Committee meeting on 18 September.

8. The London Borough of Croydon have advised the Council that they will no longer be maintaining their framework agreements and the Council will need to use a different method of procurement.

9. However, for at least the last six years there has been in place a National LGPS Framework for Investment Consultancy Services and one for, inter alia, Actuarial Services administered by Norfolk County Council. Details of the two frameworks are attached to this report. The benefits of using the frameworks, as summarised on page 4 of each of the attachments, apply to the Council, including:

- Easy access to pre-selected specialists
- Collaboration and partnership
- Flexibility
- Best practice procurement
- Agreed terms and conditions
- Efficiency
- Value for money
- Quality of service provision

.

10. Of particular note is that the two frameworks include service providers well know within the Local Government Pension Scheme administering authorities namely:

    <u>Actuarial Services</u>

    Aon Hewitt
    Barnett Waddingham
    Hymans Robertson
    Mercer

    <u>Investment Consultancy Services</u>

    Aon Hewitt
    Deloitte Total Reward and Benefits
    Hymans Robertson
    JLT Investment Consulting
    KPMG
    Mercer

11. The Council could undertake a full procurement exercise but due to the benefits summarised in paragraph 9 it is considered appropriate for officers to investigate the "framework" process further and recommend an appropriate strategy to the Committee on 28 June. The "joining" fees to use the frameworks are £3,000 and £5,000 respectively.

Financial Implications

12. There are clearly significant financial implications arising from the appointment of professional advisers to the Committee and the advice they give. However, the only financial implication arising directly from this report is the expenditure of £8,000 as the "joining" fee for the procurement framework process which can be met from the Pension Fund.

Risk Management Implications

13. The Pension Fund has its own risk register which includes the risks identified in connection with the appointment of and the advice provided by the Committee's professional advisers.

Equalities implications

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

Council Priorities

15. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	✓	Director of Finance
Date:	27 February 2017		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

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

Background Papers – None.

National **LGPS Framework** for Actuarial, Benefits and Governance Consultancy Services

Introduction and joining instructions

Actuarial, Benefits and Governance Consultancy Services

Collaboration
Save time and money
Quick and efficient access
National LGPS Frameworks
Common terms and conditions
Procurement flexibility
Better, faster, cheaper
Local choice

PROFESSIONAL PENSIONS PENSION SCHEME OF THE YEAR AWARDS 2015 FINALIST

LGC Investment Awards 2015 WINNER

National LGPS **Frameworks**

By LGPS Funds, for LGPS Funds

Issue 1 - September 2016

Contents

Please note these National LGPS Framework Guidance Notes do not purport to be comprehensive, have been prepared in good faith, and no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by any of the Framework's Founding Authorities, their officers, employees or agents in relation to their accuracy or completeness and to the maximum extent permitted by law any such liability is expressly disclaimed.

Introduction

The National LGPS Framework for Actuarial and Benefit Consulting launched in 2012 was the first national framework of its kind. Over the four years of its operation, 31 LGPS funds from across the UK have joined the original six Founder authorities in participating in the Framework, sharing in savings estimated to reach over £18 million.

This framework is the result of collaboration between Cumbria, Lincolnshire, Norfolk, the Environment Agency, West Midlands Pension Fund and the London Boroughs of Hackney and Tower Hamlets. Procurement, legal and project management support has been provided by Norfolk County Council and Norfolk Pension Fund.

A lot has happened in the last four years and the National LGPS Frameworks Team, working with a new group of Founder authorities (Cumbria, the Environment Agency, Hackney, Lincolnshire, Norfolk, Tower Hamlets and West Midlands pension funds), and supported by procurement and legal specialists from Norfolk County Council, have brought this Framework fully up-to-date to reflect both current needs, and the changing shape, of the LGPS.

Building on the success of its predecessor, the multi-user, multi-provider Actuarial, Benefits and Governance Consultancy Services framework is open to the LGPS and beyond for the procurement of actuarial, benefit consultancy, governance consultancy and specialist project support services from a wide range of qualified providers.

In addition to increasing the content of the Framework, we have also taken the opportunity to update the scope of bodies permitted to use the Framework to allow for the outcome of LGPS pooling, and whilst our guiding principle remains 'By LGPS Funds, for LGPS Funds', such has been the success of the National LGPS Frameworks project, the scope of users has been widened still further to encompass all public service organisations seeking to procure pensions-related services in response to requests for greater access.

As part of their **LGPS Opportunities for Collaboration, Cost Savings and Efficiencies** consultation, the Department of Communities and Local Government recognised that **"there are clear advantages and savings to making use of the National LGPS Frameworks"** and stated that **"Funds should give serious consideration to making greater use of these frameworks."**

Using a framework can save you significant time and money, whilst still delivering a service specified to your requirements, and supporting local decision making and accountability. We hope that you will consider using this procurement route for your actuarial, benefit consultancy, governance consultancy and specialist project support service requirement.

What is a framework agreement?

Frameworks are widely used across the public sector and increasingly in the LGPS. They are proven to be good for services that you can define and have demonstrated that considerable time and cost savings can be made.

A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise.

Frameworks are based on large volume purchasing. Aggregating different purchasers' potential needs means individual purchasers can buy goods and services at prices below those normally charged, or with special added benefits and/or more advantageous conditions.

All Local Government Pension Scheme (LGPS) Funds are required to procure professional actuarial, benefit and governance consultancy services.

This means that costly and time-consuming procurement exercises are regularly undertaken across Funds.

Because of this individual Funds may not be receiving either the best service or the best value that may be achievable by working collaboratively.

The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services reduces the time and cost associated with procurement by offering a facility that has already been competitively tendered.

Framework benefits:

- Easy access to pre-selected, specialist Actuarial, Benefits and Governance Consultancy services
- Collaboration and partnership
- Flexibility
- Best practice procurement
- Agreed terms and conditions
- Efficiency
- Value for money
- Quality of service provision
- Value added services
- No fault break clause

'By LGPS Funds, for LGPS Funds' the National LGPS Frameworks are uniquely open to all LGPS Funds and administering authorities nationally for the procurement of Investment Consultancy, Global Custody Services and Legal Service from a wide range of qualified providers.

It removes the need to run a best practice, OJEU equivalent full tender exercise when procuring a longer term, single supplier relationship. For smaller, one-off pieces of work, the framework has already completed the 'pre-selection' work for users.

Agreed terms and conditions are provided so users can simply 'call-off' the framework to meet their requirements, therefore removing costly and time-consuming legal work from the procurement process.

We believe that all LGPS Funds using the framework should benefit from the collaboration, which is why we have negotiated a collaborative rebate for all Funds that let services from the framework.

The National LGPS Frameworks are directly in line with the Government's agenda for LGPS collaboration and delivering greater value for money.

Using the framework will help Funds easily access the marketplace and leverage better prices, while crucially still supporting local decision making and service requirements.

Different types of frameworks

There are several different types of framework arrangements. The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services is a multiple user, multiple lot framework – i.e. all users identified on page 9 of this document can use the framework to procure a range of services.

Single User – Single Lot	**Single User – Multiple Lot**
Multiple User – Single Lot	**Multiple User – Multiple Lot**

Why should I use this framework?

Procuring actuarial, benefit and governance consultancy services can take significant time and money, both for the awarding authority and service provider.

The National LGPS Framework is fully compliant with the Public Contracts Regulations 2015. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered.

It aims to deliver access at the best possible price to high-quality, efficient and effective actuarial and benefit consultancy services for all LGPS administering authorities and any of their participating employing authorities.

The main benefits include:

Easy access to pre-selected, specialist service providers

The National LGPS Framework provides an easy access route to pre-selected specialist providers who are best placed to deliver actuarial, benefits and governance consultancy services to the LGPS.

Collaboration and partnership

The National LGPS Frameworks have been created in line with the Government's wish for LGPS Funds to seek ways of extending joint working and collaboration. They are helping to realise potential efficiencies and are giving LGPS Funds a clearer voice within the marketplace, along with helping to share knowledge, information, experience and best practice.

Flexibility

National LGPS Frameworks reduce the time and cost associated with a full procurement exercise, which in turn allows you to be more flexible with the planning and running of any tender process via Further Competition. Depending on which Lot meets your requirements, there is also the option to Directly Award.

Best practice procurement

Each of the service providers on the National LGPS Frameworks have been subject to a rigorous procurement process, ensuring they offer the scope and quality of services you require. The pre-agreed terms and conditions offer you contractual safeguards.

Agreed terms and conditions

Terms and conditions are already established and agreed for you and service providers. This removes the need to re-draft and/or renegotiate terms for each procurement you undertake. You have the right to refine, but not fundamentally alter, the terms and conditions to take into account any special requirements.

Efficiency

The framework removes the need for you to conduct full tender exercises or lengthy service provider evaluations, saving the time and costs associated with procurement exercises. Our easy ordering process makes the National LGPS Framework simple to access and use.

Value for money

To harness the opportunity to aggregate spend, ceiling prices with the facility to conduct Further Competition, along with collaborative rebates, ensure that value for money is consistently achieved.

Quality of service provision

The experience, expertise and commitment to quality of a service provider are assessed at the time of the initial competition. Your satisfaction with the service providers' performance is monitored on an ongoing basis.

No fault break clause

You have the right to suspend or terminate the contract at any time by giving written notice to the service provider.

Framework route vs full procurement

The **National LGPS Framework** for Actuarial, Benefits and Governance Consultancy Services significantly reduces the **time and cost** associated with procurement by offering a facility that has **already been competitively tendered**.

Full Tender Exercise

Pre-Qualification

- Selection evaluation
- Financial evaluation
- Track record

Tender

- Capacity and expertise
- Knowledge and understanding
- Organisation and people

Select and award

- Evaluate and award

- Ceiling prices
- Terms and conditions

Framework

Further Competition

- Refine requirement and evaluation criteria
- Tender
- Evaluate and award

Framework

Direct Award

- Identify most suitable provider
- Invite supplier to provide service

6 - 9 months without framework **reduced to...** **4 - 6 weeks** with framework **or...** **Same day** with framework

Who can use the Framework?

The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services is a multi-provider framework agreement primarily in support of the Local Government Pension Scheme.

The framework may be used by:

- Any administering authorities and any of their participating employing authorities as defined in the Local Government Pension Scheme Regulations 2013 SI 2013 No.2356 (as amended) and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended by SSI 2011/349;
- The Committee (the NILGOSC) and employing authorities as defined in the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 / SRNI 2009/33;
- The Board of the Pension Protection Fund www.pensionprotectionfund.org.uk;
- Any other administering authority or organisation of a public sector pension scheme or any public sector body that requires pensions related services; and
  - Any Common Asset Pool or Collective Investment Vehicle established by or on behalf of an administering authority or group of administering authorities; any Local Government Pension Fund(s) or groups of Pension Funds; or any bodies, organisations or companies established by them for the purpose of operating on a collective basis.

"Enterprising and effective collaborations like this are the type of approach we are keen to encourage."

Francis Maude
Minister for the Cabinet Office

What services are covered by this framework?

The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services has four separate Lots covering:

Lot	Description	Number of Service Providers
1	Actuarial Services	4
2	Benefits Consultancy	4
3	Governance Consultancy	5
4	Consultancy Services to Support Specialist Projects	7

Q.

Can we add in any service requirements at the Further Competition stage, even if they are not covered by the framework's more general specification?

A.

Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Lot 1 – Actuarial Services

Actuarial Services including but not limited to:

Actuarial services including but not limited to:

- Actuarial advice in relation to outsourcing / reshaping service delivery (Including staff transfers and changes in workforce profile)
- Advice on admission agreements
- Actuarial advice to new or existing participating employers
- Attendance at meetings as required by stakeholders
- Support for and supply of scheme communication, advice and training for all associated stakeholders as required including but not limited to scheme members, pension boards, section 101 committees and employers.
- Completion of the triennial Actuarial Valuation exercise in accordance with the LGPS governing regulations (to include preparation of individual valuation positions for each participating employer)
- Funding Strategy Statement preparation and advice
- Providing responses to auditors of administering authorities and participating employer bodies in respect of the financial reporting of Pensions and any other matters arising
- Undertaking Asset Liability Studies (every three years or more frequently if required)

- Completion of Actuarial Valuation at the date of cessation of a scheduled body or an admission body to assess any termination liabilities arising
- Annual accounting valuations of pension liabilities (in accordance with FRS17 (FRS102) / IAS19 requirements or any such standard as is in force) – including the calculation of opening positions for new employers.
- Preparation of pensions information on behalf of participating employers for inclusion in tender documentation when letting services that includes the transfer of staff who are members of the LGPS
- Calculation of opening positions (level of assets and liabilities) for new participating employers and the calculation of the appropriate employer contribution rate at commencement
- Calculation and actuarial advice relating to the consideration of an appropriate bond or other guarantee either where an authority is entering into a transferee admission agreement with a contracting party or other circumstance
- Provision of appropriate actuarial factors as prescribed by the LGPS governing regulations e.g. strain costs on early retirement.
- Provision of modelling and projections in respect of underlying assumptions and strategy at a fund or employer level
- Provision of funding and contribution strategy advice
- Supporting unitisation and segregation (in support of employer specific funding strategy)
- To act as expert witness (in case of arbitration, regulatory or other).
- Covenant analysis and baseline risk management
- Cashflow Modelling

Lot 2 – Benefits Consultancy

Benefits Consultancy Services including but not limited to:

- Benefit administration advice about outsourcing / reshaping service delivery
- Benefit administration advice to new or existing participating employers
- Attendance at meetings as required by stakeholders
- Support for and supply of scheme communication and information to stakeholders as required including but not limited to scheme members, pension boards, section 101 committees or equivalent and employers.
- Provide pension fund risk management and implementation services
- Process design and implementation
- Advice on administration management structures, service standards and key performance indicators
- Advice on compliance with regulatory requirements
- Policy Development
- Advice on the development and implementation of administration strategy (including, but not limited to, advice on a Pensions Administration Strategy)
- Working with LGPS administration software providers
- Pensions taxation advice
- Internal Dispute Resolution Procedure (IDRP) guidance
- Provision of training

Lot 3 – Governance Consultancy

Governance Consultancy Services including but not limited to:

- Advice and guidance on fund governance
- Support for and supply of scheme communication and information to stakeholders as required including but not limited to scheme members, pension boards, section 101 committees or equivalent and employers.
- Risk Management related to governance and scheme analysis
- Reviews and guidance on governance structures and its effectiveness
- Strategy and Policy Development
- Advice on compliance with regulatory requirement and other governance standards
- Advice and attendance at meetings as required by stakeholders
- Provision of training

Lot 4 – Consultancy Services to Support Specialist Projects

Discrete pieces of specialist, pensions-related project work including, but not limited to:

- LGPS asset management restructuring ("asset pooling")
- Change management
- Project management
- Regulatory compliance reviews (including, but not limited to, compliance with The Pensions Regulator requirements)
- Data Quality and Validation Audit

Who can provide services under this framework?

There are 7 service providers on the framework, across the four Lots:

Service Provider	Lot 1	Lot 2	Lot 3	Lot 4
Aon Hewitt	✔	✔	✔	✔
Barnett Waddingham	✔	✔	✔	✔
Equiniti				✔
Hymans Robertson	✔	✔	✔	✔
KPMG			✔	✔
Mercer	✔	✔	✔	✔
PWC				✔

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide these services.

While each provider successfully passed a minimum quality threshold, they are not all the same.

It is really important that you focus clearly on what you as a Fund need, so you select the most appropriate provider.

What is the duration of the framework?

The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services commenced July 2016 and is open for 4 years.

Contracts awarded under the National LGPS Framework may be for a period of up to 7 years.

This framework has been established by Norfolk Pension Fund (Norfolk County Council), in collaboration with Cumbria, Lincolnshire, the Environment Agency Pension Fund, West Midlands Pension Fund (City of Wolverhampton Council) and the London Boroughs of Hackney and Tower Hamlets (the "founding authorities").

There is no obligation to use a framework; however the benefits of the Framework apply to all requirements. You must comply with your local financial regulations.

How much does it cost and what will I save?

Joining Fee

You will only need to pay a joining fee once then you will be able to call-off from the relevant Lots of the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services as many times as you need during its lifetime.

The Joining Fees for each lot are set out in the table below:

Lot/s	Joining fee
All Lots	£5,000
Lot 1 and 2	£4,000
Lot 1 and 3	£3,500
Lot 1 and 4	£3,500
Lot 1	£3,000
Lot 1, 2 and 3	£4,500
Lot 1, 2 and 4	£4,500
Lot 1, 3 and 4	£4,250
Lot 2 and 3	£2,500
Lot 2 and 4	£2,500
Lot 2	£2,000
Lot 2, 3 and 4	£3,250
Lot 3 and 4	£1,500
Lot 3	£1,000
Lot 4	£1,000

The joining fees give you access to the framework and prices (for the relevant Lots) along with all framework documentation, including the pre-agreed terms and conditions and comprehensive guidance notes. You will also benefit from the collaborative rebate structure.

The joining fee for Lots 1 and 2 is higher to reflect their longer-term 'Full Service' nature along with the main benefits of competitive framework prices that can be reduced at Call-off and removing the need for a separate, costly and time-consuming full regulation-compliant procurement exercise.

Lots 3 and 4 have a lower joining fee that covers the administrative costs of the joining process, reflecting the smaller, more specific nature of the work involved.

Q.

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A.

The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at **Further Competition** or at **Direct Award** if applicable. Please note however that this is competition not negotiation. The defined pricing structure aims to eliminate hidden extras and allow for easy comparison at the evaluation stage.

See the benefits section under **Why should I use this framework?** for more.

Pricing

Ceiling prices for all service providers on the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services are included in the **Pricing Schedule**s.

All prices are maximum rates and are subject to further reduction at **Further Competition** or **Direct Award** if applicable.

Rebates to framework users

The following rebate applies to **all** work awarded and delivered under the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services. It will be applied to the prices as agreed at **Further Competition** (or **Direct Award** if applicable) and contract award, if these are different to the prices as established under the framework:

- An aggregated cumulative stepped rebate based on the overall value of work awarded to a supplier under this framework, pro-rata'd across all Authorities awarding work to that supplier during the year. This will be due for payment directly from the service providers as at 31 March each year for work completed and invoiced during the year.

Travel and subsistence

Service provider prices are inclusive of travel, subsistence and any other expenses.

Rate review

The **Ceiling Prices** remain fixed for the duration of the Framework. However you have the option to set out in the Call off Terms and Conditions (clause 3.2.7) if you wish the contract price to be fixed for the duration of the contract or if you wish to offer a review date. Any increase would not exceed the percentage change in the Office of National Statistics' Consumer Price Index.

How were the service providers chosen and monitored?

Expectations of quality

As part of the procurement and tendering process, the successful service providers demonstrated proof of the following general expectations:

- A proven track record, extensive knowledge and experience of providing Actuarial, Benefits and Governance Consultancy Services to Local Government Pension Funds
- Strong knowledge and experience of the regulatory framework and operational environment for LGPS Funds and their employer bodies
- Provision of added value to the LGPS and its stakeholders including Pro Bono support
- Excellent communication, partnership and negotiating skills
- Appropriate professional qualifications such as membership of the Institute and Faculty of Actuaries, membership of the Pensions Management Institute (PMI)
- An innovative approach in delivering solutions to Framework users.

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide the services detailed on pages 10 to 13.

While each provider successfully passed a minimum quality threshold, they are not all the same.

It is important you focus clearly on what you as a Fund need, so that Further Competition or Direct Award helps you select the most appropriate service provider.

Q.

Under the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services are providers scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A.

Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific service provider. If you wished to make an appointment under the framework you would either **Directly Award** or undertake a **Further Competition**, depending on the nature of your specific requirements.

Dispute resolution

General contract issues should be dealt with between you and the service provider.

Where there are more significant issues or if things get out of hand then you can escalate these to us.

Email us at **NationalLGPSFrameworks@norfolk.gov.uk** or call us on **01603 495922**.

Anything else I need to know?

Audit

As part of its contract management function, Norfolk Pension Fund has the right to conduct independent auditing of the service providers' processes, procedures and application of their hourly rate.

Financial arrangement between Norfolk Pension Fund and service providers

Service providers are required to pay Norfolk Pension Fund, as the letting authority, a flat rebate of 1% of all contracts let under the National LGPS Framework each year, for work invoiced during the financial year.

This rebate will be used to cover the administration costs of the framework.

The rebate will be calculated against the set-up and management costs of the framework at the end of each financial year. A final surplus will be distributed among letting authorities.

How do I join the National LGPS Framework?

If you would like to know more or to make use of the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services please complete and return a copy of the **Option Form** (Appendix 1) along with a signed **Confidentiality Statement** (Appendix 2)

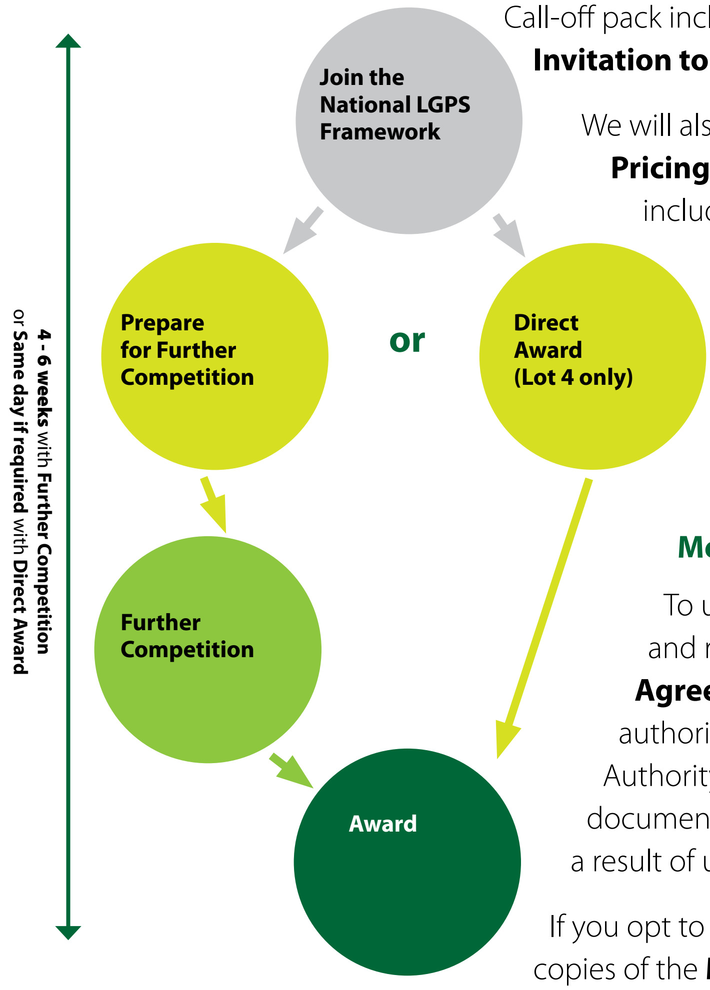
Via this form you can opt to receive more details or to join the framework.

Confidentiality Statement

We cannot share any of the commercially sensitive details of the framework with you until you have completed and returned a **Confidentiality Statement** (Appendix 2).

Once we have received your **Confidentiality Statement** we will send you a set of **Guidance notes**, along with a comprehensive Call-off pack including a **Guide to Call-off** and an **Example Invitation to Further Competition Template**.

We will also send you **Call-off terms and conditions,** a **Pricing Schedule** and **Supplier Catalogues**, which include service descriptions and biographies/CVs.



Members' Access Agreement

To use the National Framework, you must sign and return two copies of the **Members' Access Agreement**. This is a legal document between your authority and Norfolk County Council (the Letting Authority for this framework). The purpose of the document is to regulate any liabilities that may arise as a result of use of the Framework.

If you opt to join the framework we will send you two copies of the **Members' Access Agreement** to sign and return, along with all the other framework documentation. An example of the **Members' Access Agreement** is at Appendix 3. We will also send you an invoice for the Joiners Fee.

If you have already signed a Members Access Agreement for the Actuarial, Benefits and Governance Consultancy Services framework but wish to join another lot, please complete and return **Annex A Notice letter template** which is attached to your signed Members' Access Agreement.

If you have any further questions or need any further detail before using the framework, please contact us and we will be happy to help.

Email: **NationalLGPSFrameworks@norfolk.gov.uk**

Do you know about the other services available via National LGPS Frameworks?

If you have a requirement for any of the above services and would like to find out more about National LGPS Frameworks please contact us at **NationalLGPSFrameworks@norfolk.gov.uk or 01603 495922**

FAQs

Question 1

Who can use the framework?

A. Any administering authorities and any of their participating employing authorities as defined in the Local Government Pension Scheme Regulations 2013 SI 2013 No.2356 (as amended) and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended by SSI 2011/349;

The Committee (the NILGOSC) and employing authorities as defined in the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 / SRNI 2009/33;

The Board of the Pension Protection Fund www.pensionprotectionfund.org.uk;

Any other administering authority or organisation of a public sector pension scheme or any public sector body that requires pensions related services; and Any Common Asset Pool or Collective Investment Vehicle established by or on behalf of an administering authority or group of administering authorities; any Local Government Pension Fund(s) or groups of Pension Funds; or any bodies, organisations or companies established by them for the purpose of operating on a collective basis.

Question 2

When can I Directly Award and when do I have to run a Further Competition?

A. You can **Directly Award** from Lot 4 'as and when' you have a specific, one-off piece of work; however if you need a longer-term arrangement you will need to run a **Further Competition**.

Lots 1, 2 and 3 are primarily **Full Service** Lots, where you can appoint a single supplier for a long term arrangement. This is done by running a **Further Competition**.

Question 3

What is the difference between the two types of Direct Award?

A. There are two methods of **Direct Award** under the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services – **Direct Award to Single Supplier** and **Direct Award following Quotes**.

Direct Award to Single Supplier is where you invite the service provider you have identified as most suitable, using the Call-off criteria, to provide the service within a given timescale. If they are unable to supply the service then subsequent service providers in order of suitability should be invited to supply the service within the given timescale.

Direct Award following Quotes is where you write to all the service providers you have identified as capable of providing the service you require and invite them to submit a price in writing for each specific contract to be awarded. You should then choose the service provider which offers best value for money when judged by the Call-off criteria you have set out.

Direct Award *is not suitable for longer-term arrangements i.e. anything more than a one off piece of work. In these instances* ***Further Competition*** *should be used to award your work.*

Question 4

Under the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services are service providers scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A. Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific serviceprovider. If you wished to make an appointment under the framework you would either **Directly Award** or undertake a **Further Competition**, depending on the nature of your specific requirements.

Question 5

If a list of suitable providers is provided (un-ranked), are we able to decide which firms to invite to tender?

A. This depends on the nature of your requirements and which Lots they fall under. Lots 1, 2 and 3 are aimed at longer-term arrangements where you appoint one supplier for a set period of time. You will need to run a **Further Competition** to appoint from these Lots and it is best practice to invite all capable service providers to take part. By nature of their successful award to the framework, all service providers on the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services are deemed capable. You would need a clear and justifiable reason to exclude any service provider.

Lot 4 is designed for one-off specialist projects and as such contracts can be **Directly Awarded** without the need for **Further Competition**.

Question 6

Will we undertake a mini selection exercise from the list of successful providers?

A. Again this depends on which Lot your requirements fall under. For Lots 1, 2 and 3 you would run a **Further Competition** based on your specific requirements and assessed by you against the criteria you refine for 'call-off' (you can introduce sub-criteria and set the weightings within the boundaries we have set). The format of the **Further Competition** is your decision; however we have included guidance and templates in the **Guide to Call-off** you receive if you choose to return a confidentiality statement.

There is also more information on how to call-off from Lot 4 in this guide, including **Directly Awarding** to a single supplier or inviting all suppliers to **Further Competition**.

Question 7

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A. The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Call-off stage. Please note however that this is competition not negotiation. The list of ceiling prices is fixed so that there are no hidden charges and prices are comparable and transparent.

Question 8

How much does it cost to join the framework?

A. Please see the joiner's fee details at page 15. You will only need to pay a joining fee once then you will be able to call-off from the relevant Lots as many times as you need during its lifetime. If you wish to join a further Lot you will only need to pay the difference between the lot you have joined and the Lot you wish to join.

Question 9

What do we get for these fees and why are they so different?

A. The joining fees give you access to the framework and prices (for the relevant Lots) along with all framework documentation, including the pre-agreed terms and conditions and comprehensive guidance notes. You will also benefit from the collaborative rebate structure.

The joining fee for Lots 1 and 2 is higher to reflect their longer-term 'Full Service' nature along with the main benefits of competitive framework prices that can be reduced at Call-off and removing the need for a separate, costly and time-consuming full regulation-compliant procurement exercise.

Lots 3 and 4 have a lower joining fee that covers the administrative costs of the joining process, reflecting the smaller, more specific nature of the work involved.

See the benefits section under **Why should I use this framework?** for more.

Question 10

Is there scope for us to agree/alter contractual terms and conditions, or are these essentially set at a framework level?

A. The Public Contracts Regulations 2015 ("the Regulations") specifically state that the parties should not substantially amendthe terms laid down in a framework agreement.

There is an acknowledgement though that you may need to make non-material changes to the terms (e.g. to change the time for supply of the relevant products). However, you are not entitled to make a material change to the terms (e.g. by adding a new service) to the extent that it might affect the identity of the service providers capable of meeting the requirements.

This prevents the distortion of competition by ensuring that service providers are not excluded solely on the grounds that they were unable to meet the original requirements.

Question 11

What variations will be considered non-material?

A. The regulations do recognise that the terms of a framework, or of specific contracts, may need to be supplemented in certain situations.

Where you are running a **Further Competition** under a multi-supplier arrangement, you may supplement the terms.

In these circumstances, you would do so where you need to amend the terms to ensure that they capture the requirements more precisely, or provide additional terms on the basis that these have been referred to in the framework. **This does not allow a fundamental re-write of the terms** but recognises that it is not possible or practical to attempt to make provision for every eventuality, particularly in a multi-supplier environment.

However, there is a requirement that any supplemental terms align with and are based on the terms referred to in the framework agreement or the original request for tender. It was for this reason that careful consideration was given to the development of these documents when setting up this framework.

Question 12

Will we be able to stipulate our own contract termination conditions?

A. You have the right to suspend or terminate the contract with immediate effect at any time by giving written notice to the service provider as set out in the **Call-off terms and conditions**.

Question 13

When we do our own tenders we may have a shortlist in order of highest score and use the interviews to verify the scores from the ITT, plus add an additional score, e.g. for communication. Can we still do this if using the National LGPS Framework?

A. You may wish to include service provider interviews as part of your **Further Competition** process – for example, if you want to meet your potential client relationship manager.

If you decide to include moderation interviews as part of your **Further Competition** evaluation process, you will need to invite all service providers who have realistic chance of winning (You should make it clear in your Invitation to Further Competition document who you will interview e.g. the top three scoring bids who have a realistic chance of winning).

If you choose to use interviews for clarification and to ratify the scores you have awarded as part of the Quality and Service Fit criteria again, you may not want to interview any supplier that does not have a realistic chance of winning. Whichever approach you take, you must clearly state your intentions upfront in your **Invitation to Further Competition**.

Please try to avoid carrying out unnecessary interviews for providers who have no realistic chance of being awarded a contract.

Question 14

How does the Public Services (Social Value) Act 2012 apply to Framework Agreements?

A. Procurers and commissioners must consider the provision of the Act when procuring an above threshold framework agreement for public services. The Act states that Authorities should consider economic, social and environmental aspects that can affect citizens when they are tendering for requirements. This might involve consultation with local groups and the voluntary sector.

Norfolk County Council have assessed this Framework Agreement in the context of the Act, and have determined that it meets the requirement of Economy, in that it is anticipated that it will generate savings for the public purse in the local area of each user pension fund.

It is anticipated that this will be achieved through the rebate structure and increased competition in provision of Actuarial, Benefits and Governance Consultancy services to user pension funds and authorities. In addition, this is an innovative procurement approach for the LGPS as a whole and it is anticipated it will generate savings through speeding up lengthy procurement processes for each user fund.

Glossary

Access agreement
An agreement to join the National LGPS Framework, made between an awarding authority and the letting authority (Norfolk Pension Fund in this instance). Also known as a Deed of Adherence.

Administering authority
An authority that administers a Local Government Pension Scheme (LGPS).

Award criteria
The criteria used to determine whether a service provider can meet the requirements set by an awarding authority.

Awarding authority
An LGPS authority looking to award a contract to a service provider within the National LGPS Framework.

Call-off
The act of an awarding authority procuring a service provider from the National LGPS Framework.

Call-off contract
A legally binding agreement for the provision of services made between the awarding authority and service provider.

Call-off criteria
The criteria used to evaluate service providers at the Further Competition stage.

Ceiling prices
The maximum prices that service providers can charge as part of the National LGPS Framework. These are subject to further reduction at the Call-off stage.

Collaborative rebate
All awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded to a supplier under the National LGPS Framework, pro-rata'd across all Authorities awarding work to that supplier during the year (across both services). This will be due for cash payment as at 31 March each year for work completed and invoiced during the year.

Competitively tendered

The process of circulating detailed specification of services to a number of potential providers, who submit bids for evaluation ahead of an award being made. In this instance it refers to the process undertaken by Norfolk Pension Fund and the "founding authorities" when appointing service providers to the National LGPS Framework.

Confidentiality statement

A statement to be signed by potential joiners of the National LGPS Framework, agreeing to respect the confidentiality of any commercially sensitive information made available.

Cyclical Valuations

A valuation that is required in designated cycles. In this instance, it refers to the requirement of all LGPS schemes to get an actuarial valuation of their assets and liabilities every 3 years.

Direct award

Where a contract for services is awarded based solely on the information provided in the **Supplier Catalogues** without the need for **Further Competition**.

Further Competition (sometimes referred to as mini-competition)

Competitions run by awarding authorities in order to evaluate service providers when awarding contracts under Lots 1, 2 and 3 as part of the National LGPS Framework.

Initial competition

The procurement exercise that was carried out in order to appoint service providers to the National LGPS Framework.

Invitation to Further Competition

As part of the **Further Competition** stage, awarding authorities will invite service providers to quote for the services they have set out in their detailed requirements.

Joining fee

A one-off fee applicable to all LGPS authorities who wish to join the National LGPS Framework for Actuarial, Benefits and Governance Consultancy services.

Letting authority
The authority that provides access to the National LGPS Framework (in this case Norfolk County Council).

LGPS
The Local Government Pension Scheme.

OJEU
OJEU stands for the Official Journal of the European Union. This is where the contract notice for the National LGPS Framework was published. All public sector contracts over a published threshold are required to be published in the OJEU.

Order Form
The order submitted to the service provider by the awarding authority in accordance with the National LGPS Framework. It sets out the description of the services to be supplied including, where appropriate, key personnel, premises, timeframe, deliverables and quality standards.

Service provider
A company that provides legal services as part of the National LGPS Framework.

Terms and conditions
In this instance, the Call-off terms and conditions that, along with an Order Form, comprise a call-off contract.

Contact us

If you have any questions about the National LGPS Frameworks or would like to know more, please contact us at the following:

NationalLGPSFrameworks@norfolk.gov.uk

01603 495922

The Norfolk Pension Fund
(National LGPS Frameworks)
4th Floor, Lawrence House
Norwich NR2 1AD

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National **LGPS Framework** for Investment Consultancy Services

Introduction and joining instructions

Investment Consultancy Services

Local choice
Investment Consultancy Services
Common Terms and Conditions
National LGPS Frameworks
Value for money
Collaboration
Best practice procurement
Flexibility
Efficiency savings
Multi-provider
LGPS

EXCELLENCE IN PUBLIC PROCUREMENT AWARDS 2014/15
Finalist
GO / John F McClelland Collaborative Procurement Initiative of the Year Award
NON HEALTH AND NON HEALTH RELATED ORGANISATIONS

LGC Investment Awards 2014
WINNER

Issue 2 - March 2015

National LGPS **Frameworks**

By LGPS Funds, for LGPS Funds

Contents

Please note these National LGPS Framework Guidance Notes do not purport to be comprehensive, have been prepared in good faith, and no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by any of the Framework's Founding Authorities, their officers, employees or agents in relation to their accuracy or completeness and to the maximum extent permitted by law any such liability is expressly disclaimed.

Introduction

Across the Public Sector we must all continually seek the elusive 'Triple Crown' – how to deliver our statutory services 'better, faster and cheaper'?

The National LGPS Frameworks may help you meet this challenge.

Lord Hutton highlighted the potential benefits of co-operative projects within the LGPS; LGPS 2014 took this further and agreed the principle that 'scheme efficiencies be realised through more effective procurement….'

'By LGPS Funds, for LGPS Funds', the National LGPS Frameworks are a direct example of Funds collaborating to deliver benefits both locally and nationally across the LGPS. This initiative is directly in line with the Government's agenda for delivering greater value for money, alongside the reformed Local Government Pension Scheme.

This multi-user, multi-provider framework is uniquely open to all LGPS Funds for the procurement of investment consultancy services from a range of qualified providers.

All LGPS Funds and employing authorities using the framework will benefit equally from the collaboration.

Using a framework can save you significant time and money, whilst still delivering a service specified to your requirements, and supporting local decision making and accountability.

We hope that you will consider using this procurement route for your investment consultancy services.

"This type of co-ordinated approach to delivering better outcomes across the whole LGPS is exactly what we need to achieve real value for money in the future."

Jeff Houston
Head of Pensions, LGA

This Framework is the result of collaboration between Buckinghamshire, Cambridgeshire, Lincolnshire, Norfolk and Northamptonshire County Councils and the London Boroughs of Croydon and Hackney. Procurement, legal and project management support has been provided by specialists from Norfolk County Council and Norfolk Pension Fund.

What is a framework agreement?

Frameworks are widely used across Government. They are proven to be good for services that you can define and have demonstrated that considerable savings can be made.

A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise.

Frameworks are based on large volume purchasing. Aggregating different purchasers' potential needs means individual purchasers can buy goods and services at prices below those normally charged, or with special added benefits and/or more advantageous conditions.

All Local Government Pension Scheme (LGPS) Funds are required to procure professional investment consultancy services.

This means that costly and time-consuming procurement exercises are regularly undertaken across the Funds.

Because of this individual Funds may not be receiving either the best service or the best value that may be achievable by working collaboratively.

The National LGPS Framework for Investment Consultancy Services reduces the time and cost associated with procurement by offering a facility that has already been competitively tendered.

Framework benefits:

- Collaboration and partnership
- Flexibility
- Best practice procurement
- Agreed terms and conditions
- Efficiency
- Value for money
- Quality of service provision
- Additional contract management activity
- No fault break clause

'By LGPS Funds, for LGPS Funds' the National LGPS Frameworks are uniquely open to all LGPS Funds and employing authorities nationally for the procurement of actuarial and benefit consultancy services and investment consultancy services from a range of qualified providers.

It removes the need to independently undertake a full European Union (OJEU) procurement, as this has already been done as part of the framework. Agreed terms and conditions are provided so users can simply 'call-off' the framework to meet their requirements.

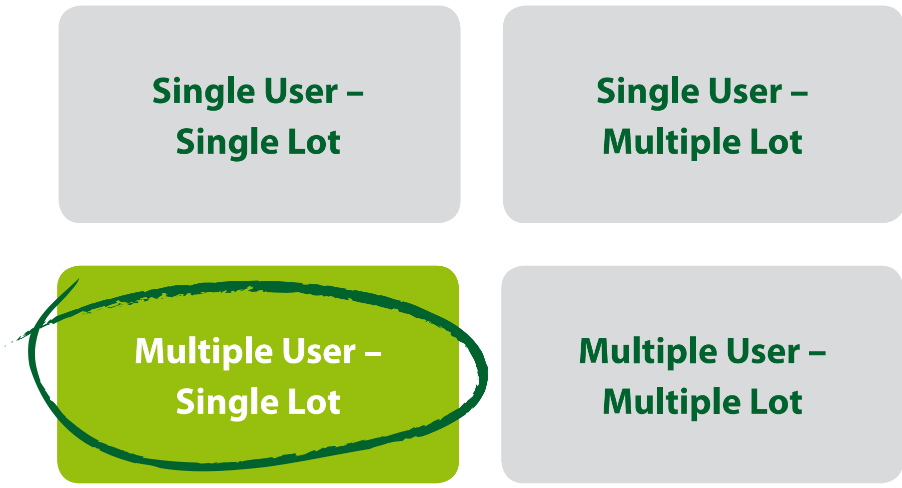
We believe that all LGPS Funds using the framework should benefit equally from the collaboration, which is why we have negotiated a collaborative rebate for all Funds that let services from the framework.

The National LGPS Framework is directly in line with the Government's agenda for LGPS collaboration and delivering greater value for money.

Using the framework will help Funds to leverage better prices, while crucially still supporting local decision making and service requirements.

Different types of frameworks

There are several different types of framework arrangements. The National LGPS Framework for Investment Consultancy Services is a multiple user, single lot framework – i.e. all LGPS Funds and participating employing authorities can use the framework to procure investment consultancy services.



Why should I use this framework?

Procuring investment consultancy services can take significant time and money, both for the awarding authority and service provider.

The National LGPS Framework is fully compliant with the Public Contracts Regulations 2006. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered.

It aims to deliver access at the best possible price to high-quality, efficient and effective investment consultancy services for all LGPS administering authorities and any of their participating employing authorities.

The main benefits include:

Collaboration and partnership

The National LGPS Framework was created in line with the Government's wish for LGPS Funds to seek ways of extending joint working and collaboration. This will help realise potential efficiencies and give a clearer voice to LGPS Funds within the market place, along with helping to share knowledge, information, experience and best practice.

Flexibility

National LGPS Frameworks reduce the time and cost associated with a full OJEU procurement, which in turn allows you to be more flexible with the planning and running of any tender process via Further Competitions.

Best practice procurement

Each of the service providers on the National LGPS Framework have been subject to a rigorous procurement process, ensuring they offer the scope and quality services you require. The pre-agreed terms and conditions offer you contractual safeguards.

Agreed terms and conditions

Terms and Conditions are already established and agreed for you and service providers. This removes the need to re-draft and/or renegotiate terms for each procurement you undertake. You have the right to refine, but not fundamentally alter, the Terms and Conditions to take into account any special requirements.

Efficiency

The framework removes the need for you to conduct full tender exercises or lengthy service provider evaluations, saving the time and costs associated with procurement exercises. Our easy ordering process makes the National LGPS Framework simple to access and use.

Value for money

To harness the opportunity to aggregate spend, ceiling prices with the facility to conduct Further Competition, along with collaborative rebates, ensure that value for money is consistently achieved.

Quality of service provision

The experience, expertise and commitment to quality of a service provider are assessed at the time of the initial competition. Your satisfaction with the service providers' performance is monitored on an ongoing basis.

Additional contract management activity

Norfolk County Council manages and monitors the National LGPS Frameworks on behalf of their user communities. Your views and requirements will be taken into account while the frameworks are monitored, as well as when they are reviewed and developed.

No fault break clause

You have the right to terminate the contract at any time by giving at least three months written notice.

Q.

Do I have to use a framework for all contracts I award?

A.

There is no obligation to use a framework when your requirement is under the OJEU procurement limit, however the benefits of the Framework apply to all requirements. You must comply with your local financial regulations.

Framework route vs full EU procurement

The **National LGPS Framework** for Investment Consultancy Services significantly reduces the **time and cost** associated with procurement by offering a facility that has **already been competitively tendered**.

OJEU

Pre-Qualification

- Selection evaluation
- Financial evaluation
- Track record

Tender

- Capacity and expertise
- Knowledge and understanding
- Organisation and people

Select and award

- Evaluate and award

- Ceiling prices
- Terms and conditions

Framework

Further Competition

- Refine requirement and evaluation criteria
- Tender
- Evaluate and award

6 - 9 months without framework **reduced to...** **4 - 6 weeks** with framework

What services are covered by this framework?

Q.

Can we add in any service requirements at the Further Competition stage, even if they are not covered by the framework's more general specification?

A.

Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Q.

Will we be able to stipulate our own contract termination conditions?

A.

The call-off terms & conditions include termination rights for inadequate performance, default, etc, as well as providing a 3 month written notice period.

The National LGPS Framework for Investment Consultancy Services provides access to the following services:

Investment consultancy services including but not limited to:

- Review of asset allocation, investment strategy and investment management structure
- Working with the Fund Actuary to undertake asset liability modelling as required
- Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner
- Attendance at meetings as required
- Providing training to Members and officers as required
- Advising on the Statement of Investment Principles
- Advising on the Pension Fund Annual Report
- Advising on controlling investment costs including fees and transaction related costs
- Advising on alternative investments
- Advising on Corporate Governance and Socially Responsible Investment policies
- Advising on Manager selection
- Advising on investment markets and the outlook for different asset classes.

All Local Government Pension Scheme (LGPS) administering authorities (including those in Scotland and Northern Ireland) and employing authorities can use the framework to procure these services.

Who can provide services under this framework?

There are six service providers on the framework:

Service Provider	Investment Consultancy
AON Hewitt	✔
Deloitte Total Reward and Benefits Limited	✔
Hymans Robertson LLP	✔
JLT Investment Consulting	✔
KPMG LLP	✔
Mercer Limited	✔

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide these services.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is really important that you focus clearly on what you as a Fund need, so that Further Competition helps you select the most appropriate provider.

What is the duration of the framework?

The National LGPS Framework for Investment Consultancy Services commenced on 3 April 2013 and is open for 4 years.

However, as LGPS Schemes are required to get an actuarial valuation of their assets and liabilities every 3 years, there are cost and continuity benefits if contracts can be utilised for two cyclical valuations.

Therefore contracts awarded under the framework may be for up to seven years, provided always that no contract shall extend beyond 31 March 2021.

Contracts awarded under the National LGPS Framework may be for up to seven years.

How do I find out more and what does it cost?

Q.

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A.

The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Further Competition. (Please note however that this is competition not negotiation).

Joining Fee

Confidentiality Statement and Joining Fee – If you would like further information about the National LGPS Framework for Investment Consultancy Services please sign and return the **Confidentiality Statement** (Appendix 2). Returning the Confidentiality Statement places you under no obligation to use the framework but gets you access to the framework documentation including, Terms and Conditions, Guidance Notes, Supplier Catalogues and Ceiling Prices.

If you decide to join the framework a one off joiners fee of £5000 is payable. This allows you to make use of the framework and all the documentation provided. You will also benefit from the collaborative rebate structure and remove the need for a separate full OJEU procurement exercise.

Pricing

Pricing – Ceiling Prices for all service providers on the National LGPS Framework for Investment Consultancy Services are included in the framework documentation you will receive if you return a Confidentiality Statement.

All prices are maximum rates and are subject to reduction at Further Competition.

Rebates to framework users

The following rebate applies to **all** work awarded and delivered under the National LGPS Framework for Investment Consultancy Services. It will be applied to the prices as agreed at Further Competition and contract award, if these are different to the prices as established under the framework:

- An aggregated cumulative stepped rebate based on the overall value of work awarded to a supplier under this framework, pro-rata'd across all LGPS Authorities awarding work to that supplier during the year. This will be due for payment directly from the service providers as at 31 March each year for work completed and invoiced during the year.

Travel and subsistence

Service provider prices are inclusive of travel, subsistence and any other expenses.

Rate review

The pricing ceilings remain fixed until 31st December 2017.

Any potential annual price increases from 1st January 2018 are capped so that they may not exceed the percentage change in the Office of National Statistics' Consumer Prices Index (or another such index as notified to the provider in writing), less two percentage points over the calendar year prior to the date of increase.

Please Note: You may choose to ask for a derivative pricing mechanism as an alternative. For example an annual retention fee for core services where the price will be determined at Further Competition stage.

How were the service providers chosen and monitored?

Expectations of quality

As part of the procurement and tendering process, the successful service providers demonstrated proof of the following general expectations:

- A proven track record and extensive knowledge and experience of providing Investment Consultancy Services to Local Government Pension Funds and/or large (i.e. with a minimum asset value of £2 billion) corporate pension funds within the United Kingdom
- Strong knowledge of the regulatory framework and operational environment for LGPS Funds
- Excellent communication, partnership and negotiating skills
- Appropriate professional qualifications such as Investment Management Certificate (IMC), Chartered Financial Analyst (CFA), membership of the Institute and Faculty of Actuaries
- The ability to demonstrate innovation in delivering solutions to LGPS Funds
- The ability to work with the Fund's actuary to determine appropriate investment strategies taking into account the funding position
- The ability to provide appropriate training and resources to support Fund decision making and monitoring requirements
- Financial Services Authority (FSA) registration and are regulated by the FSA

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide the services detailed on page 9.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is really important that you focus clearly on what you as a Fund need, so that Further Competition helps you select the most appropriate provider.

Anything else I need to know?

Continuous improvement

There is also a requirement that Service Providers should at all times during the framework:

- Make arrangements to secure continuous improvement in the way in which services are provided
- Use all reasonable endeavours to ensure awarding authorities receive the benefit of reduced third party costs and charges relevant to the provision of the services
- Use all reasonable endeavours to implement the efficiencies to be found in good industry practice

Audit

As part of its contract management function, Norfolk Pension Fund has the right to conduct independent auditing of the service providers' processes, procedures and application of their hourly rate.

Financial arrangement between Norfolk Pension Fund and service providers

Service providers are required to pay Norfolk Pension Fund, as the letting authority, a flat rebate of 1% of all contracts let under the National LGPS Framework each year, for work invoiced during the financial year.

This rebate will be used to cover the administration costs of the framework.

The rebate will be calculated against the set-up and management costs of the framework at the end of each financial year. A final surplus will be distributed among letting authorities.

How do I join the National LGPS Framework?

If you would like to know more or to make use of the National LGPS Framework for Investment Consultancy Services please complete and return a copy of the options document at **Appendix 1**.

Via this form you can opt to receive more details or to join the framework.

Confidentiality Statement

We cannot share any of the commercially sensitive details of the framework with you until you have completed and returned a confidentiality statement **(Appendix 1, Form A)**.

Once we have received your confidentiality statement we will send you copies of the framework documentation, including the guidance notes, full Terms and Conditions, templates for requesting and evaluating tenders, order form, supplier catalogues and pricing schedules.

Members Access Agreement

To use the National Framework, you must sign and return two copies of the Members Access Agreement. This is a legal document between your authority and Norfolk County Council (the Letting Authority for this framework). The purpose of the document is to regulate any liabilities that may arise as a result of use of the Framework.

If you opt to join the framework we will send you two copies of the Members Access Agreement to sign and return. An example of the Members Access Agreement is at **Appendix 2**. We will also send you an invoice for the Joiners Fee.

If you have any further questions or need any further detail before using the framework, please contact us and we will be happy to help.

Email: **NationalLGPSFrameworks@norfolk.gov.uk**

Do you know about the other services available via National LGPS Frameworks?

If you have a requirement for any of the above services and would like to find out more about National LGPS Frameworks please contact us at
NationalLGPSFrameworks@norfolk.gov.uk
or **01603 495922**

FAQs

Question 1

Who can use the framework?

A. Any scheduled body listed in the LGPS (Admin) Regulations 2008/239, the Scottish Regulations (SSI 2011/349) and the Northern Irish Regulations (SRNI 2009/33) can use the framework.

Question 2

Under the National LGPS Framework, are suitable investment consultants scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A. Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific service provider. If you wished to make an appointment under the framework you would undertake a Further Competition to select your service provider using the 'call-off' criteria.

Question 3

If a list of suitable investment consultants is provided (un-ranked), are we able to decide which firms to interview?

A. If there is something quite definitive in the service providers' description of their capability, which indicates that they are unable to do the work, they may be excluded. However, it is easier to invite all capable service providers to take part in the Further Competition. You would need a clear and justifiable reason to exclude. It is anticipated that only the top scoring providers will be invited to an interview (see Further Competition evaluation criteria for more).

Question 4

Will we undertake a mini selection exercise from the list of successful providers?

A. Yes, based on your specific requirement and assessed by you against the criteria you refine for 'call-off' (you can introduce sub-criteria and set the weightings within the boundaries we have set). The format of the Further Competition is your decision.

Question 5

What sort of questions/information should we ask at the Further Competition stage (other than price)? Would it be a paper exercise based on the answers provided in the tender response? (Will we have access to the tender responses?). Can we contact the list of service providers to ask additional questions based on our individual requirements? How much scope do we have to change the nature of the questions from the questions asked at the tender stage?

A. You would specify your requirement and ask questions related to it. We will have ensured that the service providers are able to deliver all the services listed at a generic level. You are testing them at a more granular level. We would not as a matter of course publish the answers to all questions from the framework tender exercise, but we will be publishing very detailed service descriptions based on the tender responses so that you have confidence in the service providers' capability.

Question 6

How much can we adjust the selection criteria to suit our individual needs?

A. We have tried to build flexibility into the call-off criteria so that you can adjust these to be the most appropriate fit for you. This could include further defining the criteria, inserting sub criteria, and adjusting weightings.

Question 7

Can we add in any service requirements at the Further Competition stage, even if they are not covered by the framework's more general specification?

A. Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Question 8

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A. The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Further Competition stage. Please note however that this is competition not negotiation.

Question 9

How much does it cost to join the framework?

A. There is a one-off joining fee of £5000.

Question 10

What do we get for this fee?

A. You get access to the framework and prices, along with all framework documentation including the terms and conditions and guidance notes. You will also benefit from the collaborative rebate structure and removing the need for a separate full OJEU procurement exercise. See the benefits section under **Why should I use this framework?** for more.

Question 11

Is there scope for us to agree /alter contractual terms and conditions, or are these essentially set at a framework level?

A. The The Public Contracts Regulations 2006 ("the Regulations") specifically state that the parties should not substantially amend the terms laid down in a framework agreement.

There is an acknowledgement though that you may need to make non-material changes to the terms (e.g. to change the time for supply of the relevant products). However, you are not entitled to make a material change to the terms (e.g. by adding a new service) to the extent that it might affect the identity of the service providers capable of meeting the requirements.

This prevents the distortion of competition by ensuring that service providers are not excluded solely on the grounds that they were unable to meet the original requirements.

Question 12

What variations will be considered non-material?

A. The regulations do recognise that the terms of a framework, or of specific contracts, may need to be supplemented in certain situations.

Where you are running a Further Competition under a multi-supplier arrangement, you may supplement the terms.

In these circumstances, you would do so where you need to amend the terms to ensure that they capture the requirements more precisely, or provide additional terms on the basis that these have been referred to in the framework. **This does not allow a fundamental re-write of the terms** but recognises that it is not possible or practical to attempt to make provision for every eventuality, particularly in a multi-supplier environment.

However, there is a requirement that any supplemental terms align with and are based on the terms referred to in the framework agreement or the original request for tender. It was for this reason that careful consideration was given to the development of these documents when setting up this framework.

Question 13

Will we be able to stipulate our own contract termination conditions?

A. The call-off terms & conditions include termination rights for inadequate performance, default, etc, as well as providing a 3 month written notice period.

Question 14

When we do our own tenders we may have a shortlist in order of highest score and use the interviews to verify the scores from the ITT, plus add an additional score, usually for communication. Can we still do this if using the National LGPS Framework and rename our communication section 'service fit'?

A. Yes.

Question 15

Do I have to use the templates provided in the joiners pack to undertake my procurement?

A. No, with the exception of the Order Form which we strongly recommend you use for all orders under the framework, the templates are designed to help you in your procurement but are not compulsory. However, if you choose not to use the templates you must ensure that you still comply with best practice procurement.

Question 16

How does the Public Services (Social Value) Act 2012 apply to Framework Agreements?

A. Procurers and commissioners must consider the provision of the Act when procuring an above threshold framework agreement for public services. The Act states that Authorities should consider economic, social and environmental aspects that can affect citizens when they are tendering for requirements. This might involve consultation with local groups and the voluntary sector. **The Act does not apply to services contracts awarded by calling off from a framework.**

The National LGPS Framework for Investment Consultancy Services was advertised in the OJEU before the act was passed, but the nature of the subject matter does not lend itself to influencing the factors listed above.

We will of course be taking account of the requirements of the Act for any future National LGPS Frameworks.

Glossary

Access agreement
An agreement to join the National LGPS Framework, made between an awarding authority and the letting authority (Norfolk Pension Fund in this instance). Also known as a Deed of Adherence.

Administering authority
An authority that administers a Local Government Pension Scheme (LGPS).

Award criteria
The criteria used to determine whether a service provider can meet the requirements set by an awarding authority.

Awarding authority
An LGPS authority looking to award a contract to a service provider within the National LGPS Framework.

Call-off
The act of awarding authority procuring a service provider from the National LGPS Framework.

Call-off contract
A legally binding agreement for the provision of services made between the awarding authority and service provider.

Call-off criteria
The criteria used to evaluate service providers at the Further Competition stage.

Ceiling prices
The maximum prices that service providers can charge as part of the National LGPS Framework. These are subject to further reduction at the Further Competition stage.

Collaborative rebate
All awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded to a supplier under the National LGPS Framework, pro-rata'd across all LGPS Authorities awarding work to that supplier during the year (across both services). This will be due for cash payment as at 31 March each year for work completed and invoiced during the year.

Competitively tendered

The process of circulating detailed specification of services to a number of potential providers, who submit bids for evaluation ahead of an award being made. In this instance it refers to the process undertaken by Norfolk Pension Fund and the "founding authorities" when appointing service providers the National LGPS Framework.

Confidentiality statement

A statement to be signed by potential joiners of the National LGPS Framework, agreeing to respect the confidentiality of any commercially sensitive information made available.

Cyclical valuations

A valuation that is required in designated cycles. In this instance, it refers to the requirement of all LGPS schemes to get an actuarial valuation of their assets and liabilities every 3 years.

Direct award

Where a contract for services is awarded based solely on the information provided in the Supplier Catalogue. It is not possible to directly award under this National LGPS Framework and all contracts must be awarded via Further Competition.

Further Competition (also referred to as mini-competition)

Competitions run by awarding authorities in order to evaluate service providers when awarding contracts as part of the National LGPS Framework. Essentially the process set out in **How do I use the National LGPS Framework?**

Initial competition

The procurement exercise that was carried out in order to appoint service providers to the National LGPS Framework.

Invitation to tender (ITT)

As part of the Further Competition stage, awarding authorities will invite service providers to quote for the services they have set out in their detailed requirements.

Joining fee

A one-off fee applicable to all LGPS authorities who wish to join the National LGPS Framework for Investment Consultancy Services.

Letting authority
The authority that provides access to the National LGPS Framework (in this case Norfolk County Council).

LGPS
The Local Government Pension Scheme.

OJEU
OJEU stands for the Official Journal of the European Union. This is where the contract notice for the National LGPS Framework was published. All public sector contracts over a published threshold are required to be published in the OJEU.

Order Form
The order submitted to the service provider by the awarding authority in accordance with the National LGPS Framework. It sets out the description of the services to be supplied including, where appropriate, key personnel, premises, timeframe, deliverables and quality standards.

Service provider
A company that provides Investment Consultancy services as part of the National LGPS Framework.

Terms and conditions
In this instance, the call-off terms and conditions that, along with an order form, comprise a call-off contract.

Contact us

If you have any questions about the National LGPS Frameworks or would like to know more, please contact us at the following:

NationalLGPSFrameworks@norfolk.gov.uk

01603 01603 495922

The Norfolk Pension Fund
(National LGPS Frameworks)
4th Floor, Lawrence House
Norwich NR2 1AD

REPORT FOR: Pension Fund Committee

Date of Meeting: 7 March 2017

Subject: Independent Advisers and Co-optee

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary and Recommendation

Summary
The Committee is asked to consider extending the contracts of its two independent advisers and ceasing the appointment of a co-optee to the Committee.

Recommendations

The Committee is asked to agree:

(1) That, in accordance with their current contracts, Honorary Alderman Richard Romain and Mr Colin Robertson be invited to accept an extension of two years up to 28 July 2019 as independent advisers to the Committee.

Harrow COUNCIL LONDON

(2) That the appointment of a co-optee to the Committee be ceased and no nominee is put forward to Council for such an appointment.

(3) In view of the service Mr Bluston has given to the Committee and its predecessor over the last ten years the Committee put on record their appreciation.

Section 2 – Report

Independent advisers

1. At their meeting on 29 July 2014, after an extensive application and interview process, the Committee agreed to the appointment of Mr Colin Robertson and the, then, Mr Richard Romain as independent advisers to the Committee on the following principal terms:

   - The appointment will be for three years (29 July 2014 to 28 July 2017) with the possibility, at the Fund's discretion, to extend for a further two years. The contract may be terminated by the Fund at any time with three months' notice.

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

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

2. Both Honorary Alderman Romain and Mr Robertson have carried out their duties with the diligence and professionalism expected and Members, officers, the investment adviser and fund managers have all expressed their appreciation for their contributions. They have both indicated their willingness to accept an extension of two years to their contracts on the same terms covering the period 29 July 2017 to 28 July 2019.

3. It is therefore recommended that in accordance with their current contracts, Honorary Alderman Richard Romain and Mr Colin Robertson be invited by the Committee to accept an extension of two years up to 28 July 2019 as independent advisers to the Committee

Co-optee

4. In June 2006 the, then, Legal and General Purposes Committee agreed to the appointment of Mr Howard Bluston as a non-voting co-optee to the, then, Pension Fund Investment Panel. Since then Mr Bluston has remained in this position (now with the Pension Fund Committee). Over the years Mr Bluston has provided a valuable service to the Committee and its predecessor not least through being a continuous presence during periods of change.

5. As discussed above, the Committee now has in place two well-established independent advisers in addition to the “professional” investment adviser, Aon Hewitt. The Committee is clearly well-served for advice and the need for a co-optee is not as great as it once was. Additionally, there is clearly a limit to the number of “advisory” viewpoints which the Committee can be expected to consider.

6. The position of a co-optee to one of the Council’s committees is generally subject to annual renewal by a “parent” Committee or the Council. However, the terms of reference of the Committee include exercising 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 save for those matters delegated to other Committees of the Council or to an Officer.” Assessing the support it requires from non-Councillors is clearly within this remit.

7. Taking into account the previous comments about the Committee being well served for advice, and the recommendation in place to ensure consistency of advice over the next couple of years, it seems an appropriate time to review the position of co-optee to the Committee and whether such a position is required moving forward. The Committee is therefore asked to agree to ceasing the appointment of a co-optee to the Committee.

8. In view of the service Mr Bluston has given to the Committee and its predecessor over the last ten years the Committee are invited to put on record their appreciation.

Financial Implications

9. The recommended expenditure of £30,000 pa for the two independent advisers would be a charge to the Pension Fund. Regulation 4(5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 allows the costs, charges and expenses of administering the fund to be paid from it.

Risk Management Implications

10. The risks arising from "advisory" performance are included in the Pension Fund risk register.

Equalities implications

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

Council Priorities

12. 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:	22 February 2017		
Name:	Caroline Eccles	✓	on behalf of the Monitoring Officer
Date:	22 February 2017		

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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