Pension Fund Committee AGENDA

DATE: **Wednesday 7 March 2018**

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:

Kairul Kareema Marikar	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. Amir Moshenson

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:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
http://www.harrow.gov.uk/site/scripts/location.php.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

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When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

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An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Tuesday 27 February 2018

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 21 November 2017 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 in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, Friday 2 March 2018. 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. **PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS** (Pages 17 - 22)

Report of the Director of Finance.

8. **INFORMATION REPORT - QUARTERLY TRIGGER MONITORING Q4 2017** (Pages 23 - 30)

Report of the Director of Finance.

9. **INFORMATION REPORT - PERFORMANCE MEASUREMENT SERVICES** (Pages 31 - 38)

Report of the Director of Finance.

10. **INFORMATION REPORT - TRANSFER OF HARROW COLLEGE TO LB HILLINGDON PENSION FUND** (Pages 39 - 42)

Report of the Director of Finance.

11. **INFORMATION REPORT - EXTERNAL AUDIT PLAN 2017-18** (Pages 43 - 66)

Report of the Director of Finance.

12. **COMMUNICATIONS POLICY STATEMENT** (Pages 67 - 96)

Report of the Director of Finance.

13. **FUNDING STRATEGY STATEMENT** (Pages 97 - 142)

Report of the Director of Finance.

14. **INVESTMENT STRATEGY STATEMENT** (Pages 143 - 170)

Report of the Director of Finance.

15. **INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT INVESTMENT MANAGERS** (Pages 171 - 192)

Report of the Director of Finance.

16. **GOVERNANCE COMPLIANCE STATEMENT** (Pages 193 - 210)

Report of the Director of Finance.

17. **MEETINGS OF THE PENSION FUND COMMITTEE - MUNICIPAL YEAR 2018/19**

Wednesday 27 June 2018 at 6.30pm
Wednesday 12 September 2018 at 6.30pm
Tuesday 27 November 2018 at 6.30pm
Tuesday 12 March 2019 at 6.30pm.

18. **ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

19. EXCLUSION OF PRESS AND PUBLIC

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

Agenda Item No	Title	Description of Exempt Information
20	Investment Strategy Update: Pooling and London CIV Review Consultation	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
21	Investment Manager Performance Monitoring for period ending 31 December 2017	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

AGENDA - PART II

20. INVESTMENT STRATEGY UPDATE: POOLING AND LONDON CIV REVIEW CONSULTATION (Pages 211 - 248)

Report of the Director of Finance.

21. INFORMATION REPORT - INVESTMENT MANAGER PERFORMANCE MONITORING FOR PERIOD ENDING 31 DECEMBER 2017 (Pages 249 - 322)

Report of the Director of Finance.

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

*** DATA PROTECTION ACT NOTICE**

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

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

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PENSION FUND COMMITTEE

MINUTES

21 NOVEMBER 2017

Chair:	* Councillor Nitin Parekh		
Councillors:	† Kairul Kareema Marikar * Norman Stevenson	* Bharat Thakker	
Co-optee (Non-voting):	* Howard Bluston		
Trade Union Observers:	* John Royle	Pamela Belgrave	
Independent Advisers:	* Mr C Robertson	Independent Adviser	
	* Honorary Alderman R Romain	Independent Adviser	
Others:	* Colin Cartwright	Aon Hewitt	(duration of the meeting except Minute 254)
	* Joe Peach	Aon Hewitt	(duration of the meeting except Minute 254)
	* Richard Harbord	Chair of the Pension Board	(Part I business only)

* Denotes Member present
† Denotes apologies received

241. Attendance by Reserve Members

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

242. Declarations of Interest

All Agenda Items

Councillor Norman Stevenson, a Member of 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 declared that he had connections with Pension and Investment Research Consultants Limited (PIRC) and with various Fund Managers. He would remain in the room whilst all items were discussed and make contributions.

Agenda Item 15 – Investment Strategy Review

Colin Robertson, Independent Adviser, declared that he had personal investments in GARS. Colin Cartwright, Aon Hewitt, declared that his wife had personal investments in GARS. They would remain in the room whilst the matter was considered and make contributions.

243. Change in Membership of the Pension Fund Committee

RESOLVED: That

(1) it be noted that Councillor Moshenson had replaced Councillor Barry Macleod-Cullinane on the Pension Fund Committee as the 2nd Reserve Member for the Conservative Group for the Municipal Year 2017/18;

(2) it be noted that Council on 28 November 2017 had appointed Mr Howard Bluston to serve as a non-voting co-optee on the Pension Fund Committee for the Municipal Year 2017/18.

244. Minutes

RESOLVED: That the minutes of the meeting held on 18 September 2017 be taken as read and signed as a correct record, subject to the following amendment:

Minute 226 – Declarations of Interest: Investment Strategy Review – to amend the declaration of interest made by Colin Cartwright, Aon Hewitt, to read that his wife had personal investments in GARS.

245. Public Questions/Petitions/Deputations

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

RESOLVED ITEMS

246. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance, which set out the draft Work Programme, performance of Fund Managers for previous periods and any issues raised by the Pension Board. The Committee noted that the reference in the report to PIRC should read 'Pension and Investment Research Consultant Limited'.

An officer introduced the report and updated the Committee as follows:

- further investments in Longview had been closed as it had reached the limits set. Moreover, Longview had made changes in its personnel. The Committee considered if meetings with the new personnel, albeit in their interim positions, was necessary;
- the future of the CIV (Collective Investment Vehicle) was uncertain. It was suggested that a report from the CIV ought to be requested for presentation to the Committee by its senior personnel or a member of their Board;
- the issues raised by the Pension Board related to the 'Annual Report and Financial Statements for the year ended 31 March 2017' and would be discussed later.

The Chair stated that the London CIV, of which he was a member, was scheduled to meet in December 2017 and he would report back on the discussions held. The officer referred to the officer working group on the CIV of which he was a member and agreed that it would be prudent for CIV to report back.

RESOLVED: That, subject to the comments set out in the preamble above, the Work Programme for the period up to March 2018 be agreed.

247. Performance Measurement Services

The Committee received a report of the Director of Finance, which set out the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC). Members noted that the reference in the report to PIRC should read 'Pension and Investment Research Consultant Limited'.

An officer introduced the report and reminded the Committee of the discussions they had had with David Cullinan, Pension and Investment Research Consultants Limited (PIRC), at the last meeting of the Committee, including on the requirements of the format and presentation of their reports.

Colin Robertson, Independent Adviser, was of the view that the report of the PIRC was disappointing and that it was unstructured. He requested that the benchmark referred to in PIRC's report be checked, that no information had been provided on Local Authority Universe, including the requirements identified at the last meeting of the Committee. Colin Robertson added that the report ought to have provided detail of the contribution to asset allocation performance by asset class and explored global equities performance.

He also made the following points:

- GARS benchmark was LIBOR + 5% but DGF benchmark was given as LIBOR + 4% and it did not follow that Insight was LIBOR + 3%. Were DGF and other benchmarks correct?

- the Committee had asked for asset allocation performance to be expressed in terms of asset class, for example, equity exposure contribution to performance, but asset allocation performance had been expressed in terms of individual managers;

- PIRC had made no reference to performance compared to universe of LGPS funds - a key feature of the service;

- PIRC talked of producing volatility numbers when they made a presentation to the Committee but this appeared to have been omitted from their report.

The Committee also expressed their disappointment with the report from the PIRC and requested that their concerns be conveyed to the company.

RESOLVED: That the report from Pension and Investment Research Consultants Limited to 30 September 2017, as set out in the appendix to the report, be noted and the Committee's disappointment with the report be conveyed to the PIRC.

248. Quarterly Trigger Monitoring Q3 2017

The Committee considered a report from, Aon Hewitt, Council's Investment Adviser, on Quarterly Trigger Monitoring. Members were advised that the Fund's funding level was 81% (subject to volatility), an improvement and that the direction of travel was good.

Colin Cartwright, Aon Hewitt, responded to questions from the Independent Advisers and outlined the three key drivers which could trigger de-risking. He added that the three de-risking triggers related to:

- Fund's funding level;

- Yield triggers based on the 20-year spot yield;

- Aon Hewitt's view of Bonds.

Richard Romain, Independent Adviser, referred to the sensitivity of Liability Driven Investments (LDIs), which may change and asked to be notified of the extent of the trigger that would require a decision on de-risking. Colin

Cartwright, Aon Hewitt, undertook to discuss this aspect with the Council's Fund Manager, BlackRock Investment Management and report back. He suggested that a briefing session on LDIs, identifying such matters as risks and advantages, would be helpful. Colin Robertson, Independent Adviser, related his experience that heavy trading would be required before a trigger would become necessary.

The Committee agreed that further training on LDI would be beneficial. The Committee noted that their role in relation to LDI was a strategic one rather than tactical.

RESOLVED: That

(1) no de-risking actions be taken at this stage;

(2) the Director of Finance arrange a training session on LDI with Blackrock Investment Management.

249. London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2017

The Committee received a report of the Director of Finance, which sought their agreement to the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2017 and the Annual Audit Letter 2015/16 from the external auditors, KPMG.

An officer advised that the external auditors had made only one recommendation which related to the authorisation of Pension Fund journals and that this recommendation had been actioned.

The officer referred to the concerns raised by the Pension Board in relation to the separation of bank accounts, a historic issue, and had requested a further report on this matter. He added that the Pension Fund Committee would also receive this report. Richard Harbord, Chair of Pension Board, explained that the role of the Board was to ensure proper governance and the Board had therefore asked for a report from the Section 151 Officer in this regard.

Another officer assured the Committee that Pension Fund Bank Accounts were reconciled each month and that the reference at page 76 of the agenda did not apply to the Pension Fund Accounts.

RESOLVED: That the Annual Report and Financial Statements for the year ended 31 March 2017 be agreed.

250. Any Other Urgent Business

<u>Attendance by members of the Pension Board at the Pension Fund Committee</u>

The attendance by members of the Board at the Committee was raised as an urgent item in order to ascertain their position when the Committee was considering confidential information and to seek further advice prior to the next meeting of the Committee..

The Committee were informed that HB Public Law had advised that, for the purposes of the Pension Fund Committee, members of the Pension Board were to be treated as members of the public and could not remain in the meeting room when Exempt (Part II) business was being considered.

The Committee were informed that Pension Fund Committees at other local authorities were more transparent and had an open relationship with the Board and asked that further legal advice be sought in light of this.

RESOLVED: That further legal advice be sought to clarify the relationship between the Committee and the Board.

251. Exclusion of the Press Public

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

Agenda Item No	Title	Reason
14 – 18	Currency Hedging Regulatory Implications of European Market Infrastructure Regulation (EMIR)/ Information Report - Investment Manager Performance Monitoring for period ending 30 September 2017/ Investment Consultancy Services Procurement/ Investment Strategy Review Diversified Growth Fund Managers/ Pension Death Grant Payment – Review	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

252. Currency Hedging Regulatory Implications of European Market Infrastructure Regulation (EMIR)

The Committee received a confidential report outlining the requirement to comply with changes in the European Market Infrastructure Regulation (‘EMIR’) and that, with effect from 3 January 2018, the way in which the Pension Fund’s currency hedging mandate with Record was required to change. Record had provided information on how they proposed to alter the mandate to comply with the regulatory changes. Aon Hewitt had provided a view on Record’s proposals.

Colin Cartwright, Aon Hewitt, advised on the benefits of moving away from seven counterparties to two and that it would offer diversification benefits that would help offset moving to just one counterparty. This course of action would increase the costs by £20,000 per annum. He also favoured the re-introduction of equitisation, which would enhance returns through the exposure to equity markets.

Richard Romain, Independent Adviser, suggested having more than two counterparties which would increase the operating costs but these could be offset. The Committee noted that whilst operating costs would increase, the mechanism was designed to reduce risks.

Having moved and seconded, it was

RESOLVED: That, having considered the reports from Record and Aon Hewitt,

(1) a move from seven to three counterparties to limit the cost of complying with the new EMIR regulations be agreed;

(2) the equitisation programme be re-introduced to enhance returns through the exposure to equity market.

[Note: Councillor Norman Stevenson abstained from voting on this item.]

253. Information Report - Investment Manager Performance Monitoring for period ending 30 September 2017

The Committee received a confidential report, which set out Aon Hewitt's quarterly report on Harrow's investment managers. All managers who had received a rating other than Pantheon – whose private equity funds had been rated by different criteria and had received a range of ratings - had been given either "Buy" or "Qualified" ratings.

Colin Cartwright, Aon Hewitt, drew attention to the "Qualified" rating given to BlackRock Index-linked Gilt Fund. He added that the rating on the Corporate Bond would be shared later. Colin Cartwright responded to a number of questions and undertook to set out in their next performance report how they had arrived at their ratings for the two Blackrock products. In relation to the Fund Manager, GMO, the annual turnover of 200-300% was as a result of an average holding period of six months. He acknowledged that other Fund Managers had low turnover but that GMO was particularly high.

Members were informed that the CIV (Collective Investment Vehicle) was not rated but that the Fund Managers within the CIV were.

RESOLVED: That the report be noted.

254. Investment Consultancy Services Procurement

Members received a confidential report of the Director of Finance, which advised the Committee of the current position on the provision and re-procurement of Investment Consultancy Services from 1 January 2018 and set out re-procurement proposals using the National LGPS Framework, which was due to be launched in November 2017 but was awaited. The Committee was informed that the Framework would cost £5,500 (rather than £5,000) to join and not £5,000 as set out in the report.

Members were advised that, in the interim, it would be appropriate to extend the current contract. An officer was of the view that the appointment of an actuary and an adviser from the same company was inconsequential as all were expected to work together. Members noted the advice but were in agreement that the personnel were also key and ought to be included on specifications for any future contracts.

RESOLVED: That

(1) the procurement process for Investment Consultancy Services from 1 April 2018, as set out in the report, be agreed;

(2) the current contract with Aon Hewitt be extended to 31 March 2018, and, thereafter, the new Norfolk administered framework be used to re-procure the investment consultant contract.

255. Investment Strategy Review: Equity and Diversified Growth Re-allocation

The Committee received a confidential report from Aon Hewitt, which set out recommendations for investing the re-allocation of equities to diversified growth funds as part of the Pension Fund's revised Investment Strategy, together with a note from Colin Robertson, Independent Adviser.

Colin Cartwright, Aon Hewitt, introduced the report and set out the background to the report following the September 2017 Committee meeting and the subsequent 'Meet the Managers' day. He added that the CIV offered four "growth" Diversified Growth managers and that, at the 'Meet the Managers' day, members had received presentations from the two existing Diversified Growth Fund Managers – Insight and GARS – and two Diversified Growth Managers – Newton and Ruffer – from the London CIV (Collective Investment Vehicle). He added that the rating for Newton had been revised to 'Being Reviewed' but that he was 'comfortable' with their performance.

Colin Robertson, Independent Adviser, summed up his note by saying that Newton appeared markedly worse than the others on Aon Hewitt's historical analysis while Insight showed up quite well. GARS was the best diversifier from equities. He also reported on a meeting of Independent Advisers from across the pools held that morning to the effect that funds would not be transitioned to quite a number of the pools until after April 2018. Therefore, Harrow was far from being at the rear of transitioning.

Richard Romain, Independent Adviser, stated that it would be for the Committee to make a decision.

Members recognised the need to take a measured approach and, in light of the business cases available to them, they

RESOLVED: That

(1) the asset re-allocation from the Equity reduction and cash balance be invested with the current Diversified Growth Fund managers;

(2) the Diversified Growth Fund be increased to 22% of the total Fund value from the sale of equity to be held ½ each in equal proportions in Standard Life, GARS and Insight (11% each) as they were good diversifiers away from equities;

(3) the element of passive equity reduction be delegated to the Director of Finance, to manage the transition of the agreed re-allocation of funds, following consultation with the Chair.

256. Pension Death Grant Payment - Review of Decision

The Committee agreed to consider the late report in order to allow a decision to be taken at the earliest opportunity following a recent request for a review.

RESOLVED: That recommendation 2, as set out in the report, be agreed.

(Note: The meeting, having commenced at 6.34 pm, closed at 8.36 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2018
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.

Harrow COUNCIL LONDON

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 January 2018 (Sub-section C)
    - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2018-19

2. Below is a draft for the Committee to consider as its programme of work for 2018-19.

27 June 2018

Update on regular items:

- Draft work programme for 2018-19
- Performance of fund managers for periods ended 31 March 2018
- Issues raised by Pension Board
- Emerging risks

Investment Strategy Review
Investment manager monitoring
Pooling and London Collective Investment Vehicle
Draft Annual Report and Financial Statements 2017-18
Performance Review 2017-18
Quarterly trigger monitoring
Investment review update
Medium term cashflow
Monitoring of operational controls at Longview and Insight
Review of Investment Consultancy contract
Training programme
Environmental, social and governance issues including Stewardship Code
Training session at 5.30 – (Introduction)-

12 September 2018

Update on regular items:

- Draft work programme for 2018-19
- Performance of fund managers for periods ended 30 June 2018
- Issues raised by Pension Board
- Emerging Risks

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Audited Annual Report and Financial Statements 2017-18
Management expenses
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

September 2018 – "Meet the Managers"

27 November 2018

Update on regular items:

- Draft work programme for 2018-19 and 2018-19
- Performance of fund managers for periods ended 30 September 2018
- Issues raised by Pension Board
- Emerging risks

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Quarterly trigger monitoring
Environmental, social and governance Issues
Training session at 5.30 – tbc

12 March 2019

Update on regular items:

- Draft work programme for 2019-20
- Performance of fund managers for periods ended 31 December 2018
- Issues raised by Pension Board
- Emerging risks

Investment manager monitoring
Pooling and London Collective Investment Vehicle
Monitoring of operational controls at managers
External Audit plan
Training programme 2019-20
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 Period Ended 31 December 2017 to 31 January 2018

5. Attached is a table summarising the Fund valuation from 31 December 2017 to 31 January 2018 and movement in the fund valuation 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. The Fund now subscribes to the service provided by Pension and Investment Consultants Limited (PIRC) 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. It is understood that PIRC now have 61 pension schemes within their universe which is sufficient for comparative data to be of value. Elsewhere on the agenda is a performance report from PIRC and the information arising there from will be available at future committee meetings.

7. On 28th June 2017 the Committee agreed revisions to the investment strategy which included reducing the strategic asset allocation to global equities to 42% and to emerging market equities on a pro rata basis. The re-allocations are being made on a phased basis and recommendations are set out in the exempt report Equity and Diversified Growth Recommendation.

8. On 5th November 2017, the Committee agreed an immediate fund rebalancing exercise to reduce the equity weighting of the fund assets to 50%. The asset re-allocation required an equity reduction of £107m and a transfer of £25m cash. This transfer resulted in an increase in Diversified Growth Fund manager's holdings to 22% of fund assets, (the target allocation). In total £132m was transferred to Insight and Standard Life. (£65m was taken from State Street, £25m from GMO and £17m from Oldfields). The transition was completed by 12th December 2017.

9. The value of the Fund at the end of March 2017 had increased over the year from £661m to £807m (22%). As at 31 December 2017 the market value of the Fund had increased to £872m. By 31 January 2018 the market value of the fund was £881m

D Meeting of Pension Board on 8 November 2017

10. The Pension Board met at 2.00 on 8 November with the following agenda:

   - Information Report - London Borough of Harrow Pension Board: Revised Annual Report to Council
   - Information Report - Pension Fund Committee Meeting on 12 September 2017.
   - Pension Administration Performance Report to 30 September 2017

11. Any matters raised by the Board will be reported verbally

Financial Implications

11. 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

12. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund.

Equalities implications

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

Council Priorities

14. 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 2018	✓	Director of Finance
Name: Linda Cohen Date: 23 February 2018	✓	On Behalf of Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

Appendix 1

Fund Valuation and Performance

31st December 2017 and 31st January 2018

Asset Class	Value 31.03.2017 £'000	Value 31.12.2017 £'000	Value 31.01.2018 £'000	Allocation 31.01.2018 %	Strategic Allocation %	Strategic Range %
Global Equities						
Longview (Aug17 with CIV Unhedged	86,214	93,888	95,066	11	10	
State Street	267,791	221,962	223,016	25	24	
GMO	94,156	81,108	82,277	9	8	
Oldfields	83,455	69,602	68,691	8	8	
Total Global Equities	531,616	466,561	469,051			
Total Equities	**531,616**	**466,561**	**469,051**	**52**	**50**	**45-55**
Private Equity						
Pantheon	19,341	17,710	17,710			
Total Private Equity	19,341	17,710	17,710	2	5	4-6
Property						
Aviva	64,409	67,214	67,288			
Total - property	64,409	67,214	67,288	8	10	8-12
Bonds						
Blackrock - FI	80,804	83,030	81,755	10	10	
Blackrock - IL	20,079	21,045	20,543	2	3	
Total Bonds	100,883	104,074	102,298	12	13	11-15
Alternatives						
Insight	29,096	96,974	98,047	11	11	
Standard Life	29,324	97,442	98,481	11	11	
Total Alternatives	58,420	194,416	196,529	22	22	20-24
Cash & NCA						
Cash Managers	52	52	772			
Cash NatWest	30,901	11,873	11,635			
Record passive currency hedge	-241	3,146	7,818			
Cash Custodian (JP Morgan)	12	4,999	6,439			
Debtors and Creditors	1,033	1,717	1,917			
CIV Investment	150	150	150			
Total Net Current Assets	31,907	21,937	28,730	3	0	
Total Assets	806,576	871,912	881,605	100	100	

REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2018
Subject:	**Information Report** – Quarterly Trigger Monitoring Q4 2017
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Quarterly Trigger Monitoring Q4 2017 (Aon Hewitt)

Section 1 – Summary

Summary

The Committee is requested note 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.

For Information

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 2017. The Committee are invited to note this report from Aon Hewitt as 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		√	Director of Finance
Date: 22 February 2018			

Ward Councillors notified: **NO**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers – None

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Aon Hewitt
Retirement & Investment

London Borough of Harrow Pension Fund ('the Fund')
Date: 16 February 2018
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring - Q4 2017

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's view of bond yields

Funding level

The charts and table below show 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 2017 was 82.0%, compared to 81.0% as at 30 September 2017 and 74.3% as at 31 March 2016.

31 December 2017	Ongoing Basis
Assets	£872m
Liabilities	£1,063m
Surplus (deficit)	(£191m)
Funding Level	82.0%

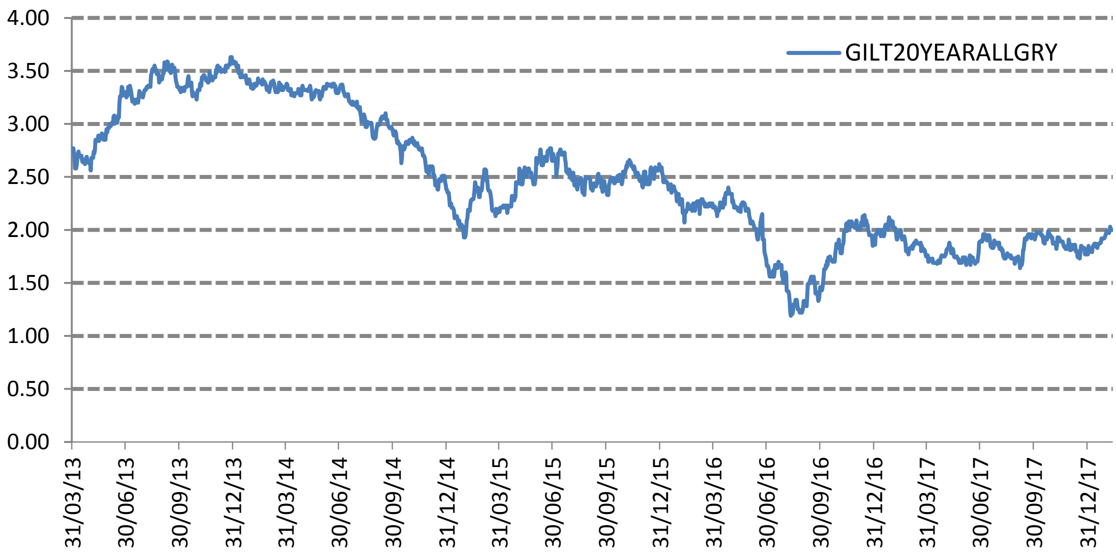
Source: Hymans Robertson

The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN
t +44 (0) 20 7086 8000 | f +44 (0) 20 7621 1511 | aon.com

20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 12 February 2018. Yields ended the fourth quarter of 2017 at 1.77%, a decline from their 1.94% level at the end of Q3 2017. Yields continued to rise into mid October but began to decline towards the end of the month as markets began to anticipate the interest rate rise on 2 November 2017. Yields continued to decline through November and December. Since the end of Q4 2017 yields have begun increasing, and yields were 2.00% as at 12 February 2018.

20 year gilt spot yield



Aon Hewitt views on bond yields

The table below sets out Aon's views versus the market in terms of spot and forward rates as at 16 January 2018.

Summary of market spot and forward rates versus Aon's views

	16 January 2018	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	Aon View	Diff	Market Pricing	Aon View	Diff
Real	-1.7%	-1.5%	-1.0%	+0.6%	-1.5%	-0.8%	+0.7%
Nominal	+1.9%	+2.1%	+2.6%	+0.5%	+2.2%	+2.8%	+0.6%
Breakeven*	+3.6%	+3.7%	+3.6%	-0.1%	+3.7%	+3.6%	-0.1%

* Aon 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, albeit to a lesser extent than previously.

Conclusion

Whilst there has been an improvement in funding level, long term bond yields remain at low levels. Aon 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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Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

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REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2018
Subject:	Information Report - Performance Measurement Services
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 PIRC Performance Report to 31 December 2017

Section 1 – Summary and recommendation

Summary

This report advises the Committee in respect of the performance measurement services being provided by Pension and Investment Consultants Limited (PIRC).

Recommendation

The Committee are recommended to note the report from Pension and Investment Consultants Limited to December 2017 as set out in the appendix and to advise on the format and presentation requirements for future reports.

Harrow COUNCIL LONDON

Section 2 – Report

1. At their meeting on 7 March 2017 the Committee were provided with an update on the services then being provided by Pension and Investment Consultants Limited (PIRC). The contract with the Fund 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

2. At their meeting on 28 June 2017 the Committee approved that PIRC would be contracted to provide additional important bespoke services for the Harrow Fund and agreed that the Committee would review the format of the performance reports produced.

3. PIRC presented the first of their quarterly reports to the Committee on 18 September 2017. Benchmarked performance to 31 December 2017 is set out in Appendix 1.The Committee is invited to comment on format and presentation requirements going forward.

Financial Implications

4. The expenditure approved is £12,500 in 2017-18 and £8,500 (subject to inflation increases) in subsequent years is a charge on the Pension Fund.

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

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

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	√	Director of Finance
Date: 22 February 2018		

Ward Councillors notified: **NO**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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London Borough of Harrow Quarterly Performance Summary
Periods to End December 2017

The Fund is measured against a Benchmark comprised:

	%		
Equity	62		
		31	FTSE AW (50% Hedged) (from Q2 2016, previously MSCI AW 50% Hedged)
		21	MSCI World NDR (50% Hedged)
		10	MSCI Emerging Markets
Bonds	13		
		10.4	BAML Eurosterling > 10 years
		2.6	FTSE Index Linked Gilts > 5 years
Property	10		IPD All Balanced Funds
Diversified Growth	10		3 Month LIBOR +4%
Private Equity	5		FTSE All World (from Q2 2014, previously LIBID)

This Benchmark will change from the start of January 2018. Funds were moved in December to align with the new benchmark.

Overview

The Fund returned 4.5 % over the quarter benefiting from the continued positive momentum of equity markets.
The return was in line with the benchmark.

Over the last twelve months performance the Fund achieved a return of 13.4% p.a.
This return was just benchmark due to the drag of holding some cash in positive markets.
Oldfield , which had performed strongly, saw performance drop and were the most disappointing of the managers.

Over the three years the Fund returned 11.3% p.a. This was ahead of the Benchmark result of 11.2%p.a.
Performance is simliar over the last five years with the returm of 11.9% p.a., also just ahead of benchmark.

The Fund is performing comfortably ahead of its peers*, ranking 28th percentile over both the three and five year periods.

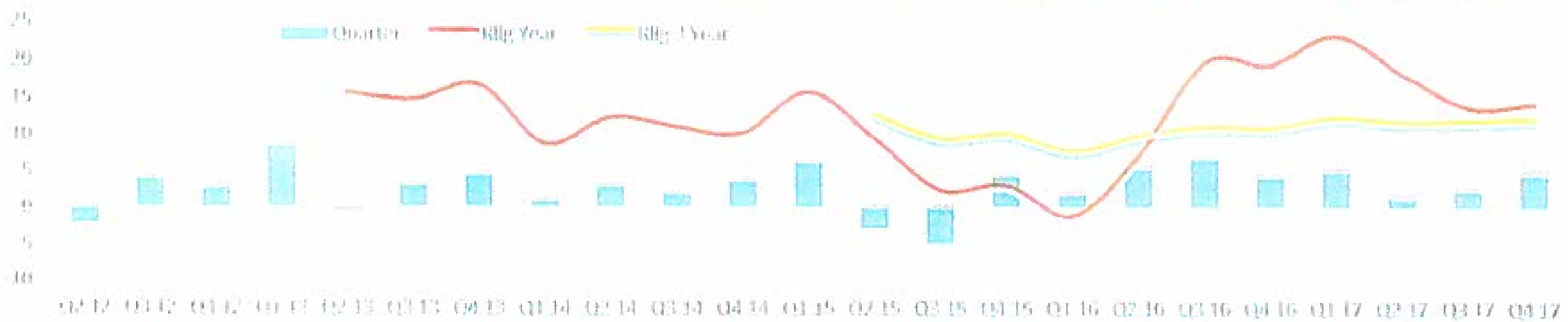
* Based on an interim Universe of 30 funds valued at £85bn

Quarter to End December 2017 - Performance Summary

	Longview	SSGA	GMO	Oldfield	Pantheon	Aviva	BlackRock	Insight	SLIM	Cash	Total
End Sep 2017 (£'000s)	90,784	274,124	99,642	83,033	17,369	65,849	100,854	30,099	29,554	37,206	833,943
End Dec 2017 (£'000s)	93,888	221,962	81,108	69,602	17,710	67,214	104,074	96,974	97,442	18,791	871,912
% total	11	25	9	8	2	8	12	11	11	2	100
% BM	11	31	10	10	5	10	13	5	5	0	100
Latest Quarter											
Fund	3.7	5.1	7.5	4.6	13.8	2.8	3.1	3.1	2.1		4.5
BM	5.0	5.1	6.6	5.0	5.1	3.1	3.0	1.0	1.1		4.5
Relative	-1.2	0.0	0.9	-0.3	8.3	-0.3	0.2	2.0	1.0		0.1
Manager Impact	*-0.1*	*0.0*	*0.1*	*0.0*	*0.2*	*0.0*	*0.0*	*0.1*	*0.0*		*0.2*
Allocation Impact	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.2*	*0.0*
One Year											
Fund	16.1	13.7	25.2	9.2	26.3	9.5	5.7	10.1	3.1		13.4
BM	15.7	13.8	25.4	12.9	13.8	10.3	4.9	4.3	4.5		13.6
Relative	0.3	0.0	-0.2	-3.3	11.0	-0.7	0.7	5.5	-1.3		-0.2
Manager Impact	*0.0*	*0.0*	*0.0*	*-0.4*	*0.2*	*-0.1*	*0.1*	*0.2*	*0.0*		*-0.1*
Allocation Impact	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*-0.5*	*-0.3*
Three Years											
Fund	9.8	15.2			23.8	7.8	7.6		1.2		11.3
BM	8.8	15.3			15.3	8.7	7.2		4.5		11.1
Relative	1.0	-0.1			7.3	-0.9	0.4		-3.1		0.2
Manager Impact	*0.1*	*0.0*	*0.1*	*0.1*	*0.2*	*-0.1*	*0.0*	*0.0*	*-0.1*		*0.2*
Allocation Impact	*0.0*	*0.1*	*0.1*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.1*	*0.1*	*-0.2*	*0.1*
Five Years											
Fund	15.3	13.0			20.7	9.8	7.9				11.9
BM	12.7	13.0			11.3	10.5	8.5				11.7
Relative	2.2	0.0			8.5	-0.6	-0.5				0.2

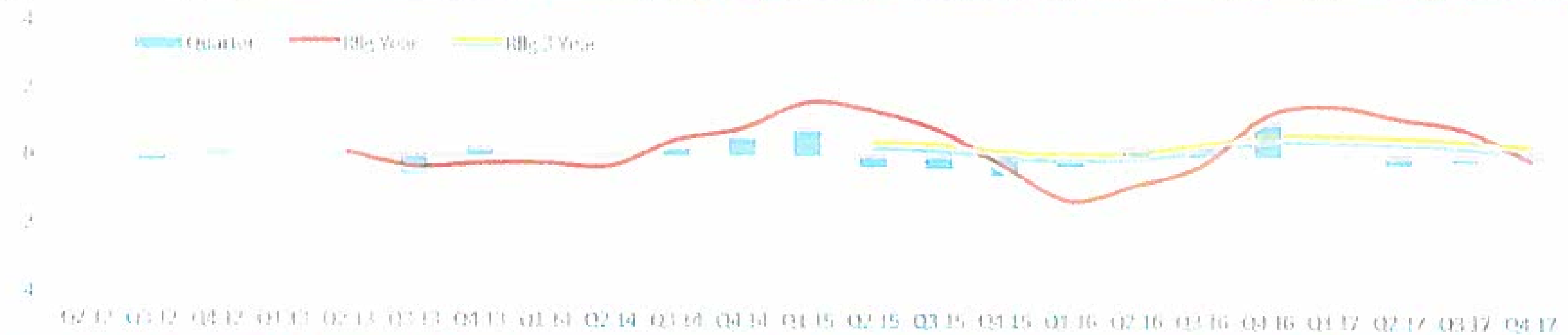
GMO and Oldfields were appointed November 2014 and Insight in January 2015 therefore do not yet have 3 or 5 year performance available
SLIM appointed June 2013 therefore no 5 year results available.

Longer Term Fund Performance Relative to Benchmark



The Fund has produced a positive return in almost every quarter of the last five years and most rolling one and three year periods.
- the notable exception being the period of market turbulance in 2016 that followed the UK's decision to leave the EU.

Longer Term Fund Performance



On a rolling annual basis (the red line) the fund performed well in the period Q3 2014 through Q3 2015 and again through 2017.

When performance is looked at on a rolling three year basis it can be seen that the Fund has been generally slightly ahead of its Benchmark.

Draft Asset Allocation By Asset Class Schedule

	Equity	rivate Equity	Property	Bonds	DG	Cash	Total
End Sep 2017 (£'000s)	547,583	17,369	65,849	100,854	59,654	37,206	833,943
End Dec 2017 (£'000s)	466,561	17,710	67,214	104,074	194,416	18,791	871,912
% total	54	2	8	12	22	2	100
% BM	62	5	10	13	10	0	100
Relative weighting	-8	-3	-2	-1	12	2	
Latest Quarter							
Allocation Impact	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*-0.2*	*0.0*
One Year							
Allocation Impact	*0.1*	*0.0*	*0.1*	*0.1*	*0.1*	*-0.5*	*-0.3*
Three Years							
Allocation Impact	*0.2*	*-0.1*	*0.0*	*0.0*	*0.0*	*-0.2*	*0.1*

Funds were moved in December to align with the new benchmark which will start January 2018.

Over all periods the key asset allocation impact has been the negative effect of the cash balances held by the Fund.

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2018
Subject:	**Information Report** – Transfer of Harrow College to LB Hillingdon Pension Fund
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

The reports inform the Committee of the merger of Uxbridge College and Harrow College on 1 August 2017 with Uxbridge College as continuing employer following the merger. The Colleges wished to combine the active, deferred and pensioner member liabilities and assets of Harrow College and Uxbridge College They required a Direction from the Secretary of State to substitute the London Borough of Hillingdon, which administers Hillingdon Pension Fund, for London Borough of Harrow, which administers Harrow Pension Fund.

FOR INFORMATION

Section 2 – Report

1 Uxbridge College and Harrow College merged on 1 August 2017, and all employees of Harrow College transferred under Transfer of Undertakings (Protection of Employment) Regulations 2006 to Uxbridge College. Harrow College was dissolved. Harrow College is an employer within London Borough of Harrow Pension Fund ("Harrow Pension Fund"), and Uxbridge College is an employer within the London Borough of Hillingdon Pension Fund ("Hillingdon Pension Fund"). The Colleges wished to combine the active, deferred and pensioner member liabilities and assets of Harrow College and Uxbridge College.

2 The transfer a Direction from the Secretary of State to substitute the London Borough of Hillingdon, which administers Hillingdon Pension Fund, for London Borough of Harrow, which administers Harrow Pension Fund under the provisions of Schedule 3, Part 2, Paragraph 3, of the Local Government Pension Scheme Regulations 2013 (the Regulations).

3 The London Borough of Hillingdon is the preferred fund, because Uxbridge College is the continuing employer after the merger, has the majority of Local Government Pension Scheme (LGPS) members and is an employer in the Hillingdon Pension Fund.

4 The Fund Actuary has calculated a bulk transfer value based on Harrow College Membership and cash flows updated for investment returns from the 1st August 2017 to the planned transfer date of 9th February 2018. The assets of Harrow College as at the calculated transfer date are £30.4 million. The transfer will be part-funded from £15 million cash and the balance from a drawdown from fund managers in March 2018. All of Harrow College's liabilities are passed to the LB Hillingdon Pension Fund.

Financial Implications

5 The financial impact for the LB Harrow Pension Fund is neutral. Following the transfer, all liabilities and risks are transferred to LB Hillingdon and Uxbridge College.

Risk Management Implications

6 Following the transfer, all liabilities and risk is transferred to Hillingdon and Uxbridge College.

Equalities implications

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

Council Priorities

8. 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	x	Director of Finance
Date:	22 February 2018		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

Contact: Iain MIllar, Treasury and Pension Fund Manager
0208 424 1432

Background Papers - None

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REPORT FOR:	**Pension Fund Committee**
Date of Meeting:	7 March 2018
Subject:	**Information Report** – External Audit Plan 2017-18
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix: External Audit Plan 2017/18 - KPMG

Section 1 – Summary

The report advises the Committee of the external audit plan for 2017-18 as presented by KPMG to Governance, Audit, Risk Management and Standards Committee on 30 January 2018.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

1. The Council has received the External Audit Plan 2017/18 as prepared by KPMG and presented to Governance, Audit, Risk Management and Standards Committee on 30 January 2018. 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 10 of Plan)
    - Uncorrected omissions or misstatements to be reported by the Auditor - £500,000 (page 10 of Plan)
    - Significant and other audit risk
      Valuation of hard to price pension fund assets (pages 2 and 6 of Plan)
      Other areas of audit focus – Calculation of benefits (pages 1 and 9 of Plan)
    - Faster closure and production of accounts by 31st May (previously 30th June) and external audit certification by 31st July (was 30th September).

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	x	Director of Finance
Date:	22 February 2018		

Ward Councillors notified:	NO

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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KPMG

External Audit Plan 2017/18

London Borough of Harrow

January 2018

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. This is a significant change and needs careful management to ensure the new deadlines are met. The Authority advanced its accounts production last year and recognises the need for further advances in 2017/18 to meet the new deadlines. As such we do not feel that this represents a significant risk, although it is still critically important. To meet the revised deadlines it is essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2017.

Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of land and buildings:** Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated; and
- **Pension liabilities:** The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Pension fund significant risks

- **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

- **Delivery of Medium Term Financial Strategy:** As a result of reductions in central government funding, and other pressures, the Authority is having to make significant savings in addition to those delivered in prior years and there are future budget gaps that need to addressed in 2019/20 and 2020/21. We will consider how the Authority identifies, approves, and monitors savings plans and how budgets are monitored throughout the year.

Other information

Logistics and team

Our team is led by Andrew Sayers – Partner and Antony Smith – Manager.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance.

Fees

Our fee for the 2017/18 audit is £150,724 (£150,724 2016/2017). Our fee for the 2017/18 Pension Fund audit is £21,000 (£21,000 2016/2017). These are both in line with the scale fees published by PSAA. All changes in fees are subject to approval by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

Content

The contacts at KPMG in connection with this report are:

Andrew Sayers
Partner

Tel: 0207 694 8981
andrew.sayers@kpmg.co.uk

Antony Smith
Manager

Tel: 07824 415 095
antony.smith@kpmg.co.uk

This report is addressed to the London Borough of Harrow (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. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA'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, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. 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.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter 2017/18 issued in April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

— **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; 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).

The 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. Any change to our identified risks will be reporting to the Governance, Audit, Risk Management and Standards Committee (GARMS Committee).

Financial statements audit

Our financial statements audit follows a four stage process:

— Financial statements audit planning

— Control evaluation

— Substantive procedures

— Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

— Risk assessment

— Links with other audit work

— Identification of significant VFM risks

— Review work (by ourselves and other bodies)

— Conclude

— Report

Pages 11 and 12 provide more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.

2. Financial statements audit planning

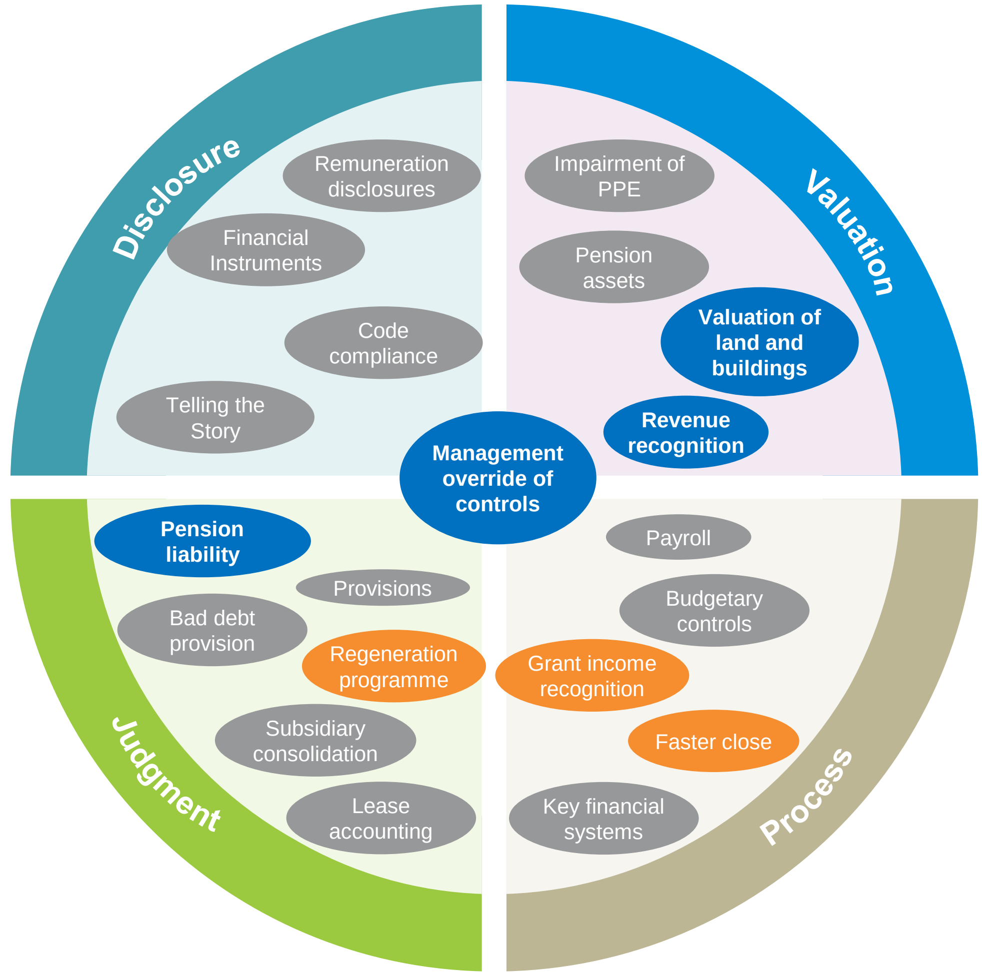
Financial statements audit planning

Our planning work takes place December 2017 to January 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course 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 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 generally 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, except for conditional grant income (capital grants received in 2016/17 were £32 million; and as at 31 March 2017 the Authority held a Community Infrastructure Levy (CIL) reserve of £6.1 million; and a capital receipts unapplied reserve of £19.6 million. We will therefore combine this work with the other area of focus for grant income recognition.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Valuation of land and buildings

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at year end.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the London Borough of Harrow Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hymans Robertson.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hymans Robertson. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Authority 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.

Faster close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready by 16 June 2017 (accounts were signed on 29 September 2017). Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the GARMS Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the GARMS Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meets the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

2. Financial statements audit planning

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Authority other areas of audit focus (continued)

Regeneration programme

Risk: 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 2014-26. Work has begun with some phases/elements completed and others in detailed design phases and therefore capital costs are continuing to be incurred (£56 million in 2017/18 and £200 million in 2018/19) in relation to the regeneration programme. The Authority will continue to 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 and any movements within this category, as part of our final accounts audit.

Grant income recognition

Risk: In 2016/17 the Authority received total capital grants of £32 million. Also as at 31 March 2017 the Authority had three relevant balances to this area: a CIL reserve (£6.1 million); capital grants received in advance (£3.5 million) and capital grants and contributions unapplied (£19.6 million). Accounting for capital grant income and ensuring balances remain appropriate is complex as the basis for 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.

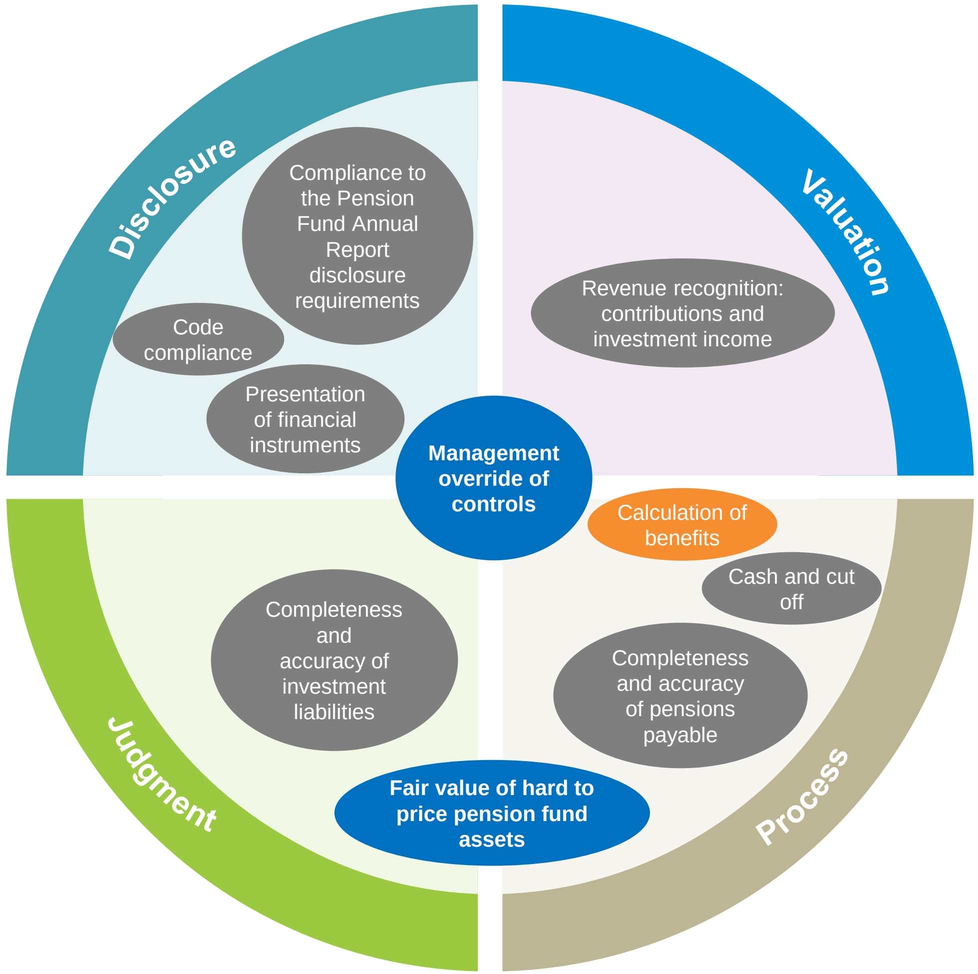
Approach: We will perform substantive testing over a sample of capital grants received during the year and balances held at the 31 March 2018. We will review grant correspondence and assess if the Authority has recognised the income in accordance with the CIPFA Code and grant agreement.

2. Financial statements audit planning

Pension Fund risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course 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 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 authority Pension Funds 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.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

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Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Valuation of hard to price investments
Risk: The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. In the prior year financial statements £21 million out of a total of £777 million investments, or 2.7%, were in this harder to price category.
Approach: We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of those figures.

Pension Fund 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.

Calculation of benefits
Risk: The calculation of benefits can be complex. In 2016/17 a total of £32 million was paid out by the Pension Fund (pensions and lump sums). 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.

2. Financial statements audit planning

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 which equates to 1.3% of 2016/17 Authority expenditure. The threshold above which individual errors are reported to the GARMS Committee is £400,000.

For the Pension Fund materiality for planning purposes has been set at £10 million which equates to 1.2% of 2016/17 net assets. The threshold above which individual errors are reported to the GARMS Committee is £500,000.

Reporting to the GARMS 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 GARMS 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 £400,000.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500,000.

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to the GARMS Committee to assist it in fulfilling its governance responsibilities.

Group audit

As part of its commercialisation projects the Authority has set up a trading company, under the 'Concilium' Group structure (both were incorporated in November 2015), Whilst we do not expect the scale of operations to be material in 2017/18, we need to continue to revisit this consideration as the scale of operation increase.

Should the Concilium Group reach a scale where group accounts are considered to apply we will need to review the impact on our audit and the additional work that would be needed to be able to give an audit opinion on the group accounts.

KPMG

3. Value for money arrangements work

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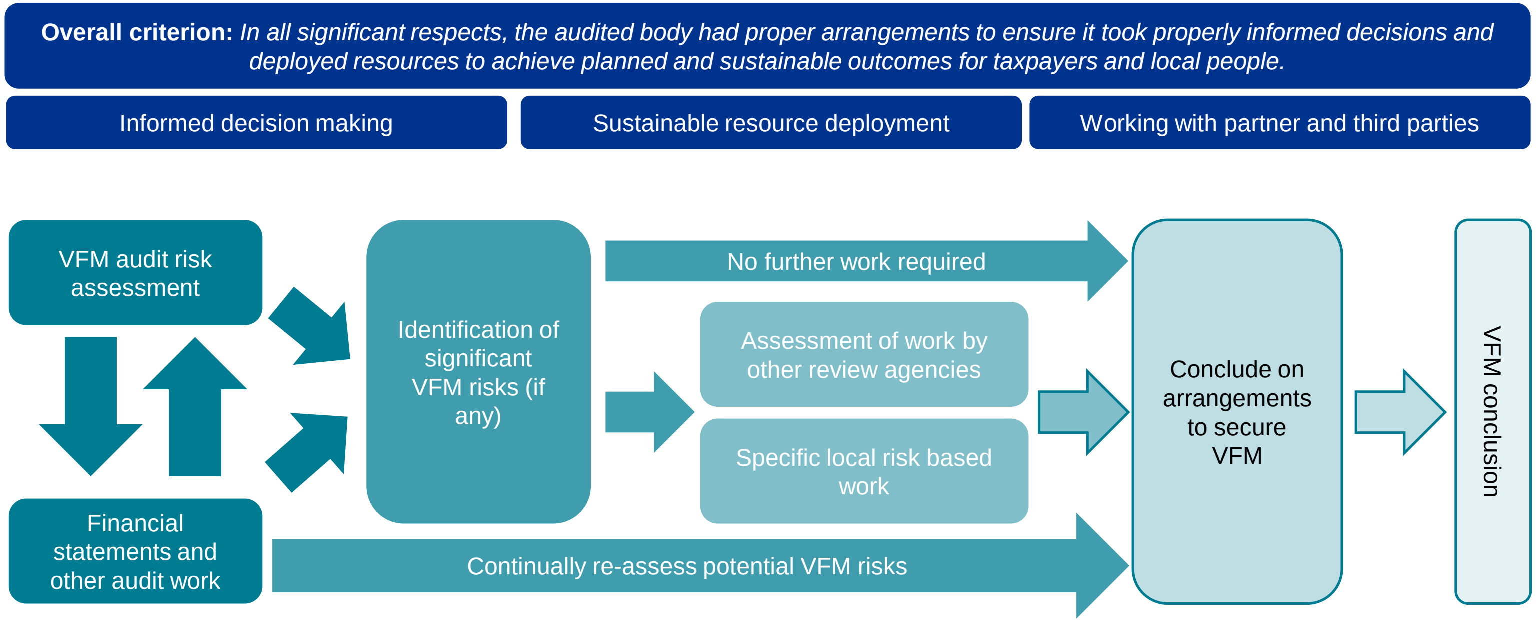
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of NHS Bodies to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". 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 process is shown in the diagram below:



We have completed our initial VfM risk assessment and have identified one significant risk for the VfM conclusion (see overleaf for details). We will keep this under review during our audit and notify the GARMS Committee of any change.

3. Value for money arrangements work

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.

Delivery of Medium Term Financial Strategy
Risk: Local Authorities continue to be subject to a challenging financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. In December 2017, the Authority reported an overspend of £6.4 million (after the planned use of £3 million available from capital receipts under the Government's capital flexibilities scheme) at the end of Quarter 2 (ie 30 September 2017). This was reduced to £3.9 million after the draw down from earmarked reserves of £2.5 million. The quarter 2 report noted that this over spend was mitigated in full from additional income allocated to the Council after the budget had been set; corporate items (unused contingencies etc); and the spending controls freeze. The most significant pressures reported related to Children's services (£3.9 million), although the report notes that management actions have improved the position and reduced the over spend by £0.5 million compared with Quarter 1. The Authority's balanced budget for 2017/18, includes the delivery of £10 million of approved savings plans. The Quarter 2 report shows that 63% of the schemes (by value) have been achieved or are on track; 21% will be partially delivered and 16% are not achievable. Any shortfall or delay in delivery of savings (£1.6 million rated as not achievable and £2.1 million at risk) will increase the already challenging financial pressures on the Authority even further and may mean reducing the already low (comparatively) level of general reserves and will increase the level of savings needed in future years. The Authority's latest MTFS (December 2017) includes a balanced draft budget for 2018/19 with a further £11 million of savings plans included. The MTFS identifies further planned savings totalling £3.5 million across 2019/20 and 2020/21, leaving a budget gap of £28 million to be addressed. The significant size of the future budget gap reflects the continuing constraints on resources; service cost and demand pressures; and the one-off nature of some elements used by the Authority to get to a balanced budget for 2018/19. The delivery of the planned savings (and identification of further additional savings) is critical to ensure the Authority's financial resilience is maintained. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.. **Approach:** We will review overall management arrangements that the Authority has for managing its financial position. This will include the processes to develop a robust Medium Term Financial Strategy, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations. **VFM sub-criterion:** This risk is related to the following Value For Money sub-criterion: — Informed decision making; — Sustainable resource deployment; and — Working with partners and third parties.

KPMG

4. 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 2017/18 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 where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Andrew Sayers:** your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the GARMS Committee, the Chief Executive and Finance Director.
- **Antony Smith:** your Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is 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 GARMS Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £150,724 for the Authority (2016/17: £150,724). The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

- Housing benefits grant claim: This audit is planned for September. Our fee for this work is £27,735; and
- Pooled housing capital receipts: This audit is planned for October. Our fee for this work is £3,500; and
- Teachers pension contribution return: This audit is planned for October. Our fee for this work is £3.500.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or bought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach

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Communication

Continuous communication between you and us

- Audit strategy and plan
- ISA 260 (UK&I) Report
- Annual Audit Letter

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep

Audit workflow

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- 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 account being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- GARMS Committee reporting

Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE LONDON BOROUGH OF HARROW

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

63 KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We confirm that we have not undertaken any non-audit services during 2017/18.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the GARMS Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

This report is intended solely for the information of the GARMS Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Appendix 3: Quality framework

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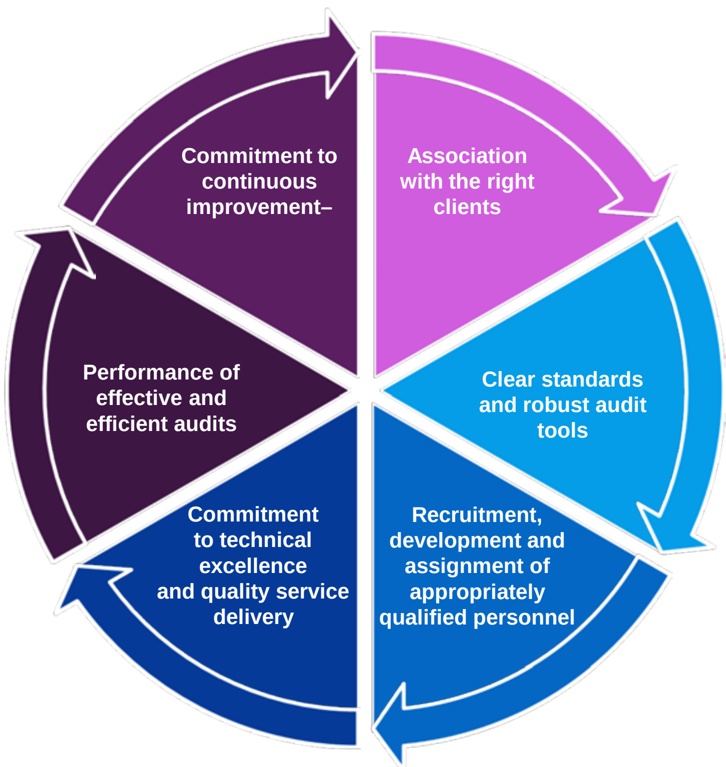
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. 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.

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REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2018
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.

Harrow COUNCIL
LONDON

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 Date: 22 February 2017	x	Chief Financial Officer
Name: Linda Cohen Date: 14 February 2017	x	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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Draft Communications Policy Statement

London Borough of Harrow Pension Fund

March 2018

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
- Chartwells
- Engie
- Govindas
- Harrow High School
- Hatch End School
- Heathland and Whitefriars School
- Jubilee School
- Krishna Avanti Primary School
- 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
- Taylorshaw
- The Jubilee Academy
- Wates

And, at 31 March 2017 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 2018.

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 and Personal Pension Schemes Disclosure of Information Regulations 2013 and other relevant legislation, for example the Pensions Act 2014. The Regulations are supported by the Pension Regulator's Code of Practice 14 Governance and Administration of Public Service Pension Schemes April 2015. 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	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	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	Annually	Hard copy on request and online	All members

Pension Fund Financial Statements Summary	Paper based and through Harrow's internet	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	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 Internet – The Harrow Pension Fund website 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 website.

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 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.

IAS19 Report – This is a national accounting standard that all authorities administering pension funds must follow IAS19 requires an organisation to account for retirement benefits when it is committed to provide them, even if the actual provision will be 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	31 August	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

REPORT FOR: **Pension Fund Committee**

Date of Meeting:	7 March 2018
Subject:	Funding Strategy Statement
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	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.
.

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 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 Statement which was approved by Pension Fund Committee in March 2017.

4. The Committee are asked to review the Funding Strategy Statement and 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: 22 February 2018	x	Chief Financial Officer
Name: Linda Cohen Date 14 February 2018	x	on behalf of the Monitoring Officer

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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Funding Strategy Statement

London Borough of Harrow Pension Fund

March 2018

CONTENTS

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 2018
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 the updated 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.(ISS)*

2. Taking into account the Guidance and advice from, inter alia, Aon Hewitt and Hymans Robertson drafts of the proposed Statement were 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 were received from those consulted and advice was taken from other interested bodies most notably, the London CIV. These comments and advice were taken into account in the preparation of the first Investment Strategy Statement which was approved by Pension Fund Committee on 7th March 2017.

3. The ISS has been updated from para 7.4 to reflect the revised strategic asset allocation benchmark approved by Pension Fund Committee in June 2017 and following the completion of an Asset Liability Modelling exercise .

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

Financial Implications

5. 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

6. Any relevant risks arising from investment performance and non-compliance with the Scheme Regulations 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		x	Chief Financial Officer
Date: 22 February 2018			
Name: Linda Cohen		x	on behalf of the Monitoring Officer
Date: 14 February 2018			

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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LONDON BOROUGH OF HARROW PENSION FUND

INVESTMENT STRATEGY STATEMENT

March 2018

CONTENTS

Executive Summary

The London Borough of Harrow Pension Fund Investment Strategy Statement has been prepared in accordance with the relevant Local Government Pension Scheme Regulations.

The objective of the Fund is to provide pension and lump sum benefits for its members and their dependants.

To assist in the achievement of this objective the Fund makes investments in accordance with:

- its investment beliefs;
- its asset allocation strategy reflecting its views on the suitability of particular investments and types of investments;
- its approach to risk, including its measurement and management;
- its approach to pooling;
- its policy on social, environmental and governance considerations;
- its policy as regards the stewardship of its assets including the exercise of voting rights; and
- its compliance with the “Myners Principles”

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 under **Regulation 7** of the Local Government **Pension** Scheme 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 last 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 previously 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 on the committee agenda for approval by the Committee on 7 March 2018.

1.5 The amendments to the investment policy reflect the results of the Investment Strategy Review and Asset Liability Modelling exercise that was undertaken in 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 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. The table shows both a short term allocation and a desired movement in allocation over the medium-term.

ASSET CLASS	MANAGEMENT APPROACH	CURRENT ALLOCATION	CURRENT RANGE	DESIRED MOVEMENT IN MEDIUM-TERM
		%	%	
Equities				
Global	Passive	24.0		
Global	Active Unconstrained	18.0		
Emerging Markets	Active Unconstrained	8.0		
TOTAL		50.0	45-55	
Bonds				
Corporate	Active	10.4		
Index Linked Gilts	Active	2.6		
TOTAL		13.0	11-15	
Alternative Investments				
Diversified Growth Funds	Active	22.0		Decrease and use proceeds to fund Property and Infrastructure opportunities
TOTAL		22.0	20-24	
Property	Active	10.0	8-12	Increase as opportunities arise
Infrastructure	Active	0.0	n/a	Increase as opportunities arise
Private Equity	Active	5.0	4-6	Reduce as current funds wind down
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 Investment Strategy Review undertaken in 2017 resulted in the Fund reducing its strategic allocation to Equities from 62% to 50%. The proceeds of the reduction in the allocation to Equities are to be held in the Fund's Diversified Growth Funds at the current time, whilst the Committee undertake training and seek opportunities in two particular asset classes; infrastructure and value-add / opportunistic property. As part of the Review, the Committee also agreed to make no further commitments to Private Equity.

7.7 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

7.8 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.

7.9 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.

7.10 The following table shows the 10 year risk and return statistics for the Fund's revised investment strategy, which was agreed as part of the Investment Strategy Review. In the Asset Liability Modelling with formed part of the Investment Strategy Review, two types of risk were considered:

- Absolute risk – the risk that the value of the Fund's assets decreases. This is measured through the absolute volatility of the assets.
- Relative risk – the risk associated with the volatility of the value of the Fund's assets relative to the value of its liabilities. This reflects the fact that the assets and liabilities do not necessarily react to market conditions in the same way.

Return expectations are also shown in both absolute and relative terms.

Current Strategy	Key Statistics
10 year return (absolute)	6.5%
10 year return (relative)	4.0%
10 year volatility (absolute)	12.7%
10 year volatility (relative)	16.1%

Data as at 31 March 2017

7.11 The table below shows the 10 year expected returns, volatilities and correlations for the asset classes modelled as part of the investment strategy review (data as at 31 March 2017):

	10y Return (%p.a.)	10y Risk (%p.a.)	Correlation							
	Median (GeoM)	Annual Volatility	Private Equity	Index Linked Gilts	UK Corporate Bonds	DGFs	Property	Infrastructure	Global Equities	EM Equities
Private Equity	8.2	27.5	1.00							
Index Linked Gilts	0.5	10.2	-0.05	1.00						
UK Corporate Bonds	1.5	9.9	0.00	0.48	1.00					
DGFs	5.2	9.0	0.60	0.10	0.40	1.00				
Property	5.5	12.6	0.31	-0.04	0.01	0.28	1.00			
Infrastructure	5.1	14.6	0.31	-0.01	0.02	0.27	0.21	1.00		
Global Equities	7.0	17.7	0.73	-0.08	0.00	0.72	0.41	0.39	1.00	
EM Equities	8.9	31.8	0.61	-0.07	0.02	0.67	0.35	0.30	0.82	1.00

Data as at 31 March 2017. Additional assumptions used when modelling specific asset classes are:

- Corporate bonds modelled as passive over 15 year AA non-gilts
- Index-linked gilts modelled as passive over 5 year ILGs
- Overseas equities modelled as 50% overseas GBP currency hedge. This is excluding the emerging market equity allocation, which is GBP currency unhedged.
- Infrastructure modelled as USD Infrastructure Total Return Hedged. This is Infrastructure equity.
- DGFs modelled as 50% GARS style, 50% Capital Preservation style DGFs

7.12 When considering relative risk, the Asset Liability Modelling exercise also looked at a short-term measure known as the Value at Risk ("VaR"). This indicates the amount that the Fund's surplus/deficit stands to deteriorate by in a 1 in 20 event. The overall VaR for the Fund's investment strategy was £271m as at 31 March 2017.

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

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 (through the London CIV)
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 Net TR; FTSE Europe Net TR; Russell Europe Index
Benchmark: USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index
Benchmark: Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR; Russell Global Net TR
Performance objective – Outperform the quoted benchmarks by 3-5% over the long term.

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.

9.5.11 Record Currency Management Limited

Asset class – Passive Currency Hedging
Objective – To provide a passive currency hedge of 50% of the Fund's global equity exposure

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 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. 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. The Fund currently holds its global equity assets with Longview through the London CIV.

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 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.

12.7 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.

Fund compliance – Full

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

Fund compliance – Partial

- In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
- 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 2018
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. The reports have been reviewed and show that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory management response.

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,showed that. During the year two of the manually monitored mandate compliance controls, did not operate effectively. However The majority of mandate rules are automated and as a result the impacted population of investment guidelines is extremely low. Mitigating controls exist outside this report through reliance on fund managers for low risk rules that cannot be automated. Aviva have confirmed that there have been no breaches of investment guidelines during the period under review and will be strengthening the controls in this area as a priority.

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 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

Longview Partners LLP

The “audit year” ended on 31 December 2017, the results of which will be reported to the Committee at their meeting on 27 June 2018.

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:	22 February 2018		

Ward Councillors notified:	**NO**

Section 4 - Contact Details

Contact: Iain MIllar, Treasury and Pension Fund Manager
0208 424 1432

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 2016 to 30 September 2017.

Auditors: PricewaterhouseCoopers LLP

Basis of Qualified Opinion (Page 14)
As stated in the management statement by Aviva Investors in section B, evidence of the effective operation of controls to ensure that client portfolios are monitored for compliance with investment limits, guidelines and restrictions for the subset of rules subject to manual monitoring or self-certification could not be provided. We are therefore unable to conclude that the following control objectives were achieved for the period 1 October 2016 to 30 September 2017:

i. Section 1. Investment Management (Objective 1.5.1) - Client portfolios are managed in accordance with investment objectives, monitored for compliance with investment limits and restrictions and performance is measured
ii. Section 2. Indirect Property Management (Objective 2.5.1) - Client portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured

Opinion (Page 14)

In the auditor’s opinion, in all material respects, except for the matters described in the Basis for Qualified Opinion paragraph:

a) the description in sections D to G fairly presents the Service Organisation’s and the included Subservice Organisation’s investment management services for institutional clients and pooled funds and information technology as designed and implemented throughout the period from 1 October 2016 to 30 September 2017;

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 2016 to 30 September 2017 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 2016 to 30 September 2017.

Of the 228 controls tested by the auditor, 11 exceptions were identified.

These exceptions and the management responses are included at the end of this appendix.

BlackRock

"Report on Controls at BlackRock Placed in Operation and Tests of Operating Effectiveness for Asset Management Services" for the period October 1, 2016 to September 30, 2017.

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, 2016 to September 30, 2017.

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 October 1, 2016 to September 30, 2017, and subservice organizations and user entities applied the complementary controls assumed in the design of BlackRock's controls throughout the period October 1, 2016 to September 30, 2017

c.) The controls operated effectively to provide reasonable assurance that the control objectives stated in the Description were achieved, throughout the period October 1, 2016 to September 30, 2017 if complementary subservice organization controls and complementary user entity controls assumed in the design of BlackRock Service Organization's controls operated effectively throughout the period October 1, 2016 to September 30, 2017.

Of the 140 controls tested by the auditor, 4 exceptions were identified:

1) **Page 102 – Control P.1.2** – For the GLM job scheduler, a configuration change was made which resulted in the potential for unauthorized users to access the internal job scheduling tool. Upon identification, management updated the configuration to restrict access to authorized employees. In addition, inappropriate GLM processing occurring as a result of unauthorized changes would be identified through reconciliation controls tested at M.1.4, M.2.2, M.2.3, M.3.1 and M.3.2.

   Management Response: Management updated the GLM job scheduler configuration to restrict access to authorized employees. Additionally, management confirmed that unauthorized changes to batch job schedules would be identified as a result of Securities Lending operational control activities which rely upon batch processing in the GLM application

2) **Page 105 – Q.1.3** – For 2 of 71 individuals across transfers and terminations selected for testing, noted the transfer notification was not sent timely

   Management Response: Management has re-emphasized the importance of accurate notification for modification of access for transferred employees in accordance with policy. Additionally, management noted that one of the two late notifications identified was the result of a data feed error between the HR system of record and downstream corporate groups. Management performed a review and confirmed that this data feed issue was an isolated event, and has implemented an exception report to identify any similar issues that may occur in the future.

3) **Page 106 – Q.1.6** – For 2 of 45 transfers selected for testing, noted the user access was not updated on a timely basis per BlackRock policy.

Management Response: Management has re-emphasized the importance of timely modification of access for transferred employees in accordance with policy.

4) **Page 107 – Q.1.10** – For 1 of 45 servers and databases selected for testing, D&T noted 7 of 234 users with administrative access whose access was no longer authorized. Upon investigation, noted these 7 users did not log in past the date where access was no longer authorized.

Management Response: Management has confirmed that these 7 accounts had previously been deactivated, and access was reinstated due to a software bug with a disaster recovery failover process which was limited to one in-scope database. Exposure checks were performed to confirm that no activity was undertaken as part of reinstatement, and process improvements have been taken to avoid similar instances in the future. In addition, periodic recertifications are in place to ensure that database access is reviewed and updated according to policy; this issue arose in between recertifications.

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, 2016 to September 30, 2017

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 2016 to September 30 2017;

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 October 1 2016 to September 30 2017 and user entities applied the complementary controls assumed in the design of GMO's controls throughout the period October 1 2016 to September 30 2017;

c.) the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2016 to September 30, 2017 if complementary user entity controls assumed in the design of GMO's controls operated effectively throughout the period October 1, 2016 to September 30, 2017.

Of the 126 controls tested by the auditor, 0 exceptions were identified

However, the following controls although 'No exceptions' noted, could not be tested

Page 69 – Control 3j – Reason: During the period, there were no instances of updates to the purchase and redemption fee tables within GPRS; therefore the operating effectiveness of this control could not be tested.

Page 100 – **Control 12g** – Reason: There were no GMO Australia Separately Managed Accounts during the period; therefore the operating effectiveness of this control activity could not be tested for GMO Australia Separately Managed Accounts.

Page 101 – **Control 12h** – Reason: There were no GMO Australia Separately Managed Accounts during the period; therefore the operating effectiveness of this control activity could not be tested for GMO Australia Separately Managed Accounts.

Oldfield Partners LLP

"AAF 01/06 Assurance Report on Internal Controls" for the period 1 July 2016 to 30 June 2017

Auditors: Deloitte LLP

In the auditor's opinion, in all material respects:

a.) the description on pages 11 to 42 fairly presents the control procedures of Oldfield Partners LLP's investment management services that were designed and implemented throughout the period 1 July 2016 to 30 June 2017;

b.) the controls related to the control objectives stated in the description on pages 11 to 42 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 2016 to 30 June 2017; 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 2016 to 30 June 2017.

Of the 151 controls tested by the auditor, 1 exception and 1 Limitation of Testing was identified

1) **Page 35 – Control 7.2.7** – Passwords to access Eze OMS and Eze Compliance via Citrix (Gateway) did not expire between the period 10/09/2016 – 30/06/2017 due to the password expiry setting had been disabled as part of the data migration of the Eze server.

2) **Page 36 – Control 7.2.9** – Limitation of Testing – The audit log for Third parties accessing OP's server is retained only for 7 days. As such testing was limited to 7 days in the audit period.

Pantheon

"Type II Report on Controls Placed in Operation Relating to Investment Advisory and Management Activities" for the period from 1 October, 2016 to 30 September, 2017

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 2016 to 30 September 2017;

b.) the controls related to the control objectives stated in the Description were suitably designed throughout the period from 1 October 2016 to 30 September 2017; 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 2016 to 30 September 2017.

Of the 109 control objectives tested by the auditor, 0 exceptions and 1 Limitation of testing was identified:

1) Page 55 – Control MF20 – Limitation of Scope: KPMG enquired of management whether any instance of an authorised signatory partner not being available occurred during the period and were informed that no instances had occurred. Since there were no instances, the operating effectiveness of the control could not be tested.

Record Currency Management Ltd

"Report on Internal Controls (AAF 01/06)" for the period 1 April, 2016 to 31 March, 2017.

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 2017;

b.) the control procedures described on pages 11 to 71 were 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,

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 2016 to 31 March 2017.

Of the 150 controls tested by the auditor, 0 exceptions were identified.

Standard Life Investments

"Internal Controls Report" for 1 October 2016 to 30 September 2017

Auditors: KPMG LLP

In the Auditor's opinion, in all material respects:

a.) the description on pages 22 to 108 fairly presents the internal controls that were designed and implemented throughout the period from 1 October 2016 to 30 September 2017;

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 2016 to 30 September 2017 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 from 1 October 2016 to 30 September 2017.

Of the 282 controls tested by the auditor, 6 exceptions were identified:

These exceptions and the management responses are included at the end of this appendix.

State Street Global Advisors

"SOC 1 – System and Organization Controls (SOC) for Service Organizations" July 1, 2016 – June 30, 2017

Auditors: Ernst & Young 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 July 1, 2016 to June 30, 2017;

b.) the controls related to the control objectives were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period July 1, 2016 to June 30,2017 and if State Street's Information Technology and Global Security divisions and user entities applied the complementary controls assumed in the design of SSGA's controls throughout the period July 1, 2016 to June 30, 2017;

c.) the controls operated effectively to provide reasonable assurance that the control objectives were achieved throughout the period July 1, 2016 to June 30, 2017 if State Street's Information Technology and Global Security divisions' controls and complementary user entity controls assumed in the design of SSGA's controls operated effectively throughout the period July 1, 2016 to June 30, 2017.

Of the 157 controls tested by the auditor, 2 exceptions were identified:

1) **Section IV Page 21 Control 12.8** – For 1 of the 4 months selected for testing, 2 out of 19 variances reviewed did not have evidence of research and resolution. For 1 of the 4 months selected for testing (including 65 invoices with 1 variance), there was no evidence of secondary Finance Associate review.

   Management Response: Management acknowledges that for 2 out of the 19 variances reviewed in the monthly reconciliation, evidence of research and resolution was not provided. In addition, for 1 of the 4 months selected, there was no evidence of secondary Finance review. Management further notes that the invoices were correct and approved (refer to control 12.7 for the approval control). Management has reinforced with appropriate personnel the requirement to document evidence of review.

2) **Section IV Page 22 Control 12.11 –** For 8 out of 35 manually accrued fees selected for testing, the review by the Accounting Manager did not identify incorrect fee calculations.

   Management Response: Upon detailed review, management identified that:

For 2 of 35 investment management fees selected for testing, the review did not identify incorrect invoice calculations regarding fee rate change in the middle of the calculation period. Management has subsequently implemented an enhanced checklist to document the secondary finance reviews of new fee schedules and amendments. Standardized fee schedule language and an exception review process for non-standard fee arrangements is currently being implemented to ensure accuracy for complex arrangements.

For 6 of 35 management fee accruals, management did not identify incorrect fee accruals which resulted from inaccurate spreadsheet formulas. Management has also implemented enhanced spreadsheet controls including documentation of a secondary recalculation of new or revised accruals and checklist signoff by the accounting manager

Aviva Investors (Page 94 – 97)

SECTION H: MANAGEMENT RESPONSES TO EXCEPTIONS NOTED

Control Reference	Control Description	Test of Control Procedures and exceptions noted
1.2.7.2	The Global Responsible Investments team conducts a secondary review of ISS (voting platform) for votes that are over 3% of total holdings to ensure that proxy voting instructions are generated, recorded and carried out accurately and in a timely manner.	**Reliance on Controls Assurance team** For a sample of votes where the vote represents more than 3% of all votes being cast, inspected evidence that the votes were subject to a secondary review prior to the vote. **Exception noted** For 2 out of 26 proxy vote issues (where votes were over 3% of all votes being cast) sampled, secondary review by the Global Responsible Investments team samples was not performed prior to the vote deadline.
Management Response	The exception identified was caused by a change in resources available to support the control. However in both cases there was no financial impact as voting was carried out correctly. We have now addressed the resources involved in vote operations and will implement an additional check of all meetings subject to the control.	
1.3.2.7	The Valuation Oversight team reviews the daily liquidity fund prices received from BNYM to investigate and escalate instances where: a) the NAV per share does not round to 1; b) daily movement is over 0.10% for the funds that do not have a daily price of 1.00; or c) daily yield has changed by more than 1%, and ensures data within daily yield file ties to daily price files to ensure investments are valued using correct prices.	For a sample of days and funds, inspected liquidity fund review performed by Valuation Oversight for evidence of review and research of items outside tolerance thresholds. **Exception noted:** For 8 out of 60 liquidity funds and days, the Valuation Oversight team review of liquidity fund prices was incomplete.
Management Response	Gaps identified have been remediated. All share classes are now unhidden on the daily monitoring file regardless of whether they are invested in or not. The price file template tabs have also been protected to ensure any new class launches will be highlighted and included in the check.	
1.3.2.9	The Asset Pricing team raise all internally valued assets that breach pre-defined thresholds for month-on-month price movements to the AIGPVC on a monthly basis to ensure accuracy of price movements and valuation of assets.	For a sample of internally valued assets that breach the agreed thresholds/tolerances inspected evidence to confirm that they were investigated and commentary was provided to the AIGPVC. **Exception noted:** For 1 out of 5 months sampled, all internally valued assets that breached predefined month on month price movement thresholds were not reviewed by the AIGPVC.
Management Response	We note that in the November pack 2 models had price movements over the 2% threshold which were not reflected in the pack, and 3 models were in the pack but were not highlighted as having movements above the 2% threshold. This exception has been fully remediated and we have noted no issues with subsequently tested samples. The month-on-month price movements for internally valued assets was reviewed by the Pricing team and the Fund Managers for November 2016. The AIGPVC monitors pricing activities (errors, near misses, models), including review of proposed amendments to the pricing policy if required through the monthly AIGPVC meeting and action log to ensure that pricing activities are in line with the approved pricing policy. The 2% movement threshold is only a small part of that discussion. The Management Information packs are appropriately detailed, for example the month-on-month activity for the total value for internally modelled assets for the current and preceding 4 months is reviewed. The MI Appendix section in each pack is further devoted to information on the models.	
1.5.1.4	The Mandate Monitoring team manually monitors investment guideline restrictions (which cannot be coded as automated rules) through review of trade data and sign off on an at least quarterly basis to ensure compliance with investment limits and restrictions.	For a sample of manually monitored guidelines and periods, inspected the Mandate Monitoring team's working papers for evidence of review and that potential breaches were researched. **Exception noted** For the period 1 October 2016 to 30 September 2017, there were 10 investment rules impacting 6 different funds where effective manual monitoring could not be evidenced to ensure compliance with investment limits and restrictions.

Control Reference	Control Description	Test of Control Procedures and exceptions noted
Management Response	Within the instances, 2 funds containing 6 of the investment rules had no transactions in the period. The remaining 4 funds only had 15 transactions in the period. The Mandate Monitoring team recognise the reasons for the occurrence of the above and have introduced additional oversight over delegated monitoring and confirmed there were no further fund reclassifications which had contributed to the above instances. The Mandate Monitoring team have retrospectively checked and confirmed that in the above instances no investment guidelines have been breached. For context, the full extent of rules impacted represent a very small percentage of the total instances of rules. Self-certified and manually monitored rules are typically low risk, many relate to illiquid investments and are unlikely to breach due to the enhanced due diligence and governance at the point of trade. No breaches of self-certified rules have occurred, and only a very few manually monitored rules breaches have occurred, since their introduction in 2014.	
1.5.1.5	The Mandate Monitoring team obtains self-certification confirmations from fund managers for rules or restrictions that cannot be monitored independently, on an annual basis to confirm that they are in compliance with investment limits and restrictions.	For a sample of self-certified guidelines, inspected the self-certification checklists or emails for evidence that self-certifications were performed in a timely manner. **Exception noted** For the period 1 October 2016 to 30 September 2017, there were 29 investment rules impacting 3 different funds which missed a self-certification to ensure compliance with investment limits and restrictions.
Management response	The Mandate Monitoring team have conducted a full review and have identified no other instances of failure to receive a self certification. The Mandate Monitoring team have retrospectively checked and confirmed that in the above instances no investment guidelines have been breached. For context, the full extent of rules impacted represent a very small percentage of the total instances of rules. Self-certified and manually monitored rules are typically low risk many relate to illiquid investments and are unlikely to breach due to the enhanced due diligence and governance at the point of trade. No breaches of self-certified rules have occurred, and only a very few manually monitored rules breaches have occurred, since their introduction in 2014.	
4.1.1.3	1 October 2016 - 1 February 2017: IT users The Access Control Team receives a notification of a leaver via the Workday tool. The leaver's physical access card is then manually set to disable by the Access Control Team on the Granta system on the specified leave date to ensure access is terminated in a timely manner. 1 February 2017 onwards: IT Users The Access Control Team receives a notification of a leaver via the Workday tool. The leaver's physical access card is then manually set to disable by the Access Control Team on the SecureNet system on the specified leave date to ensure access is terminated in a timely manner. For 3rd party access it is the line manager's responsibility to notify the Access Control Team within 7 days when there is a leaver. The 3rd party leaver's physical access card is then manually set to disable by the Access Control Team on the SecureNet system to ensure access is terminated in a timely manner.	**Reliance on Controls Assurance team** For a sample 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 7 out of 45 access cards sampled, timely removal of access cards to the Aviva Investors building could not be evidenced on the Granta system.

Control Reference	Control Description	Test of Control Procedures and exceptions noted
Management response	The Granta system was decommissioned when Aviva Investors moved out of the Poultry building on 1 February 2017. The required evidence from the Granta system was not retained and therefore we have been unable to evidence the date at which access cards to the Poultry building were disabled/removed. At Aviva Investors' new building, St Helens, no exceptions relating to non-timely access removal were identified.	
4.1.1.4	**1 February 2017:** The Granta system is configured to disable physical access passes that have not been used for 30 days. Annually, Facilities management conduct a review of the Granta system user access list to ensure passes that have not been used in over 100 days have been disabled. **1 February 2017 onwards:** The Access Control Team run a SQL query upon SecureNet to obtain a list of all cards that have not been used for more than 30 days on a weekly basis. This list is then reviewed and cards not used for 40 days and still active are then manually disabled.	**Reliance on Controls Assurance team** **Granta** - 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. **SecureNet** - For the full population of physical access passes that had not been used for 40 or more days, inspected evidence in the SecureNet system that these had been manually disabled. **Exception noted** Poultry Building - For the period 1 October 2016 to 1 February 2017, it was not possible to obtain evidence of the automated job on Granta system to disable cards that had not been used within 30 days. St Helens Building - For the period 1 February 2017 to 10 May 2017, it was not possible to demonstrate the effective operation of the control as a list of all cards that had not been used for more than 30 days was not retained.
Management response	The Granta system was decommissioned when Aviva Investors moved out of the Poultry building on 01 February 2017. The required evidence from the Granta system was not retained and therefore we have been unable to demonstrate the auto disabling of access cards to the Poultry building. At Aviva Investors' new building, St Helens, from 01 October 2017 access cards have been auto disabled on the new system after 30 days of inactivity and no exceptions were identified.	
4.1.2.2	**1 October 2016 - 12 June 2017** IT Security Administration and where applicable, application support teams are responsible for the creation of access in line with the approved request. This ensures access granted is appropriate, a separate designated requestor and approver raise and approve new account requests before the access is created for both standard and privileged accounts within Team-works or Assyst. **12 June 2017 onwards** IT Security Administration and where applicable, application support teams are responsible for the creation of access in line with the approved request. This ensures access granted is appropriate, a separate designated requestor and approver raise new account requests before the access is created for both standard and privileged accounts within IT Care or Assyst. **Windows:** The IT Security Administration Team creates a stand-ard network account when a new joiner alert is raised in Workday by People Faction Services. Any additional access required will then follow the process outlined above. Note: For the Aladdin application 3rd party BRS set up the application account on receipt of an approved request.	**Reliance on Controls Assurance team** For a sample of new standard and privileged accounts created in the period, inspected that access requests had been granted after approval by the designated approver within Teamworks. **Exception noted** For 2 out of 45 new access samples, evidence of approval prior to the access being granted could not be obtained.
Management response	Retrospective approval for access requests and the historic approval from the line managers prior to the team member joining has been obtained for the sample selected. Evidence being unavailable due to system limitations will no longer recur (as the Teamworks system has been decommissioned).	

Control Reference	Control Description	Test of Control Procedures and exceptions noted
4.1.2.3	**1 October 2016 - 12 June 2017** 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. IT Security Administration or the application support team revoke application access within 30 days post the specified leave date depending on the authentication mechanism in place for each application. Note: For the Aladdin application 3rd party BRS remove the application account on receipt of an approved request from IT Security Administration. **12 June 2017 onwards** The same process was followed but Teamworks was replaced by Workday.	**Reliance on Controls Assurance team** 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 2 out of 208 leavers, access to the network was not revoked at the time of testing. Additionally, for 6 out of 45 accounts sampled, it was not possible to evidence network revocation within 24 hours of the specified leave date.
Management response	Identified gaps have now been remediated. No leaver accessed any system post their leave date. The Teamworks tool was decommissioned in June and evidence of access removal for the 6 network accounts was not retained. Evidence being unavailable due to system limitations will no longer recur (as the Teamworks system has been decommissioned). The existing monthly control to detect inactive Active Directory accounts (4.1.2.9) is now included in the AAF report from 19 May 2017 which reviews inactivity of 30 days to aid in identifying potential leavers. A detective control is now in place whereby when leaver notifications are received after the leaver's leave date the appropriate investigation is performed to check the leaver has not accessed any system since leaving. It is our aim to bring this check into the 2018 AAF report control activity.	
4.1.2.6	The estate management team reviews an automated Splunk report that details out laptops that do not have the appropriate Safeguard encryption package on a daily basis with Assyst tickets being raised automatically to resolve issues to ensure the Safeguard encryption package is applied on all laptops. Note: Refer to 4.4.2.2 for details of the incident management controls to evidence the timely resolution of Assyst tickets raised.	**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 3 out of 45 laptops identified without the Safeguard encryption package, Assyst tickets had not been raised to resolve the issue or the tickets remain unresolved.
Management response	The laptops identified in the sample have now been encrypted.The raising of the Assyst ticket is now fully automated which has streamlined the process and will prevent any further errors from occurring.	
4.3.1.4	Segregation of Duties exist between Release Management team and deployment team. **SAMS** SAMS follows the common release management process. In addition to this the DMZ server deploys changes into production which is restricted to the AIGBD team. DXC manage access to the DMZ server as part of the third party support agreement.	**Reliance on Controls Assurance team** Inspected evidence that approved changes from the Serena Dimensions tool to a pre-deployment folder were deployed by the Release Management team. Inspected evidence that write access to the folder was restricted to authorised members of staff who were not developers. Further inspected evidence that access to the folders where changes were stored in the production environment was restricted to the Environment Management and Delivery teams responsible for moving the changes into the production environment. **Exception noted** One user account was identified with inappropriate write access to the pre-deployment folder.
Management response	Incorrect access was inadvertantly given and the user account was immediately removed during testing. The user cannot deploy code into production with this access and there is adequate segregation of duties between those who can add code into the pre-deployment folder and those who can deploy code into production.	

Standard Life (Page 109 – 113)

The service Auditor's tests have identified six exceptions. Responses from management in respect of exceptions noted by the Service Auditor in performing testing of Standard Life Investments Limited controls are presented below to provide additional information to users of this report.

1.	Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
6.9	On a daily basis, a reconciliation is performed by the Derivative Trade Support team over the accuracy of the OTC trade data between CRIMS, the OTC Database and Citi data. Any differences noted are investigated and resolved as appropriate by an independent individual.	**Inspection** For a selection of days, inspected evidence that the reconciliation of data between the OTC Database, CRIMS and Citi was performed by the Derivative Trade Support team and that any differences were investigated and resolved by an independent individual. ***Exception noted*** For one out of 15 items tested, evidence was not seen of the investigation and resolution of differences being performed by an independent individual, through completion of the daily checklist.

Management response

Management can confirm that the reconciliation differences were investigated and closed appropriately, with management approval of the closures at the time evidenced within a request to the Technology Support team to close the breaks on management's behalf. The paper checklist was not completed to retain the evidence for the task being completed in the usual fashion. Management now sign off the checklist on a weekly basis to ensure completeness.

2. Descriptions of Controls		Service Auditor's Tests specific to the exceptions noted
10.2	With the exception of North America, active voting decisions of proxy voting instructions are appropriately analysed (with the exception of de minimis holdings). Proxy votes are signed by an authorised person (as per the ESG Investment Voting Authorities) within the Company and instructed on the voting platform. All auto votes (smaller holdings), with the exception of de minimis holdings, with policy recommendations to vote against management are reviewed and authorised (as per the ESG Investment Voting Authorities) before being released from the ISS Proxy Exchange voting platform.	**Inspections** For a selection of proxy vote meetings during the period and regarding proxy votes above the de minimis holdings and outwith North America, inspected evidence that votes were analysed and signed-off by an authorised person as per the ESG Investment Voting Authorities. For the same selection, inspected evidence that any auto votes which were voted against management recommendations were reviewed and authorised as per the ESG Investment Voting Authorities, before being released from the ISS voting platform. ***Exception noted*** The full population of 12 proxy vote meetings was tested. For seven out of the 12 meetings, evidence was not seen that auto votes which were voted against managment recommendations had been analysed and signed off by an authorised person.

Management response

Management can confirm that this was due to a coding issue in relation to a report which we receive from our proxy voting provider. Management can also confirm that the report has since been corrected and notifies the team of any meetings that are coming up to be voted where we have a small holding and a recommendation to vote against management. All meetings sampled were voted in line with policy.

Two new checks have also been implemented within the process:

(a) a daily check of any Votes Against Management identified on the proxy voting provider's platform; and (b) an addition to the Daily Vote Check report, identifying holdings above de minimis with an against recommendation going through as an auto vote. In addition, a quarterly review of these particular auto votes takes place.

3. Descriptions of Controls		Service Auditor's Tests specific to the exceptions noted
12.6	1 Oct 2016 to 22 May 2017 On a daily basis, the Valuation & Pricing Oversight (VPO) and Derivative Control teams receive a 3 way OTC derivatives valuation reconciliation from BNYM (between MarkIT or Superderivatives, the counterparty and Bloomberg AIM). The reconciliation is reviewed for positions which are outwith predefined tolerances by the Derivatives Control team. Sign off is provided to VPO to either confirm BNYM values are reasonable or highlight prices for BNYM to investigate and provide further support for. VPO instruct the NAV release only once any investigations have reached an acceptable conclusion.	1 Oct 2016 to 22 May 2017 **Inspection** For a selection of days during the period, inspected evidence that the OTC reconciliations were reviewed for positions which were outwith predefined vendor tolerances and sign-off provided to VPO prior to authorising NAV release. ***Exception noted*** For one out of 10 days selected, evidence was not seen of sign-off being provided to VPO prior to authorising NAV release.

Management response

Management can confirm that, in relation to the exception, verbal confirmation was received from the Derivatives Control team at the time that the derivative valuations were accurate. Management can also confirm the accuracy of the NAV which was released, and note that this control no longer operates.

4. Descriptions of Controls		Service Auditor's Tests specific to the exceptions noted
4.4	A permitted level of due diligence expenses and/or abort costs is detailed in the PIR and approved by the relevant Investment Committee. Expenses in advance of a PIR may be incurred with the prior written approval of SL Capital's CIO.	**Inspection** For a selection of potential investments during the period, inspected evidence that the level of due diligence expenses permitted had been detailed within the PIR and that this was approved by the relevant Investment Committee. ***Exception Noted*** For one out of eight items tested, evidence was not seen of a permitted level of tax due diligence expenses detailed in the PIR and approved by the relevant Investment Committee.

Management response

Tax due diligence is a normal part of the due diligence undertaken on all co-investments. Due to the accelerated deal completion time frame in this particular case, the tax engagement was not formally approved by the Investment Committee, but was verbally approved between the Chief Investment Officer and the deal team. The overall due diligence costs for this transaction were consistent with the nature and quantum of due diligence on similar investments. The investment procedures around formal documentation/governance of due diligence costs have been reviewed and have been re-emphasised to the deal teams.

5. Descriptions of Controls		Service Auditor's Tests specific to the exceptions noted
7.3	Cash transaction reports detailing the previous day's transactions are produced and reviewed by the Finance Analyst team on a daily basis to ensure complete, accurate and timely settlement of payments and receipts. Outstanding cash transactions are monitored and reviewed on a weekly basis to ensure timely settlement of outstanding payments and receipts.	**Inspection** For a selection of days, inspected evidence that the daily cash transaction report was produced and reviewed by the Finance Analyst team to ensure complete, accurate and timely settlement of payments and receipts. For a selection of weeks, inspected the outstanding cash transactions report for evidence that the cash position was reviewed and settlement of outstanding payments and receipts was monitored. ***Exception Noted*** For one out of five weekly outstanding cash transactions reports selected, evidence of a review of the prepared report was not seen.

Management response

Management can confirm that the report in question was accurately prepared and that, as part of this preparation, all outstanding investment transactions were investigated with no further action deemed necessary.

Management can also confirm that cash flows are monitored on a daily basis by both SL Capital Partners and the respective fund administrator to ensure that any outstanding payments or receipts are identified immediately and resolved in a timely manner, and therefore the risk associated with this exception is deemed immaterial.

6.	Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
2.5	Users' permission level access for key applications is reviewed for appropriateness on an annual basis by line managers. Any inappropriate access is removed on a timely basis.	**Inspections** Inspected results of the annual user access permission level review and determined that users' permission level access for key applications is reviewed on an annual basis by their line manager. For a selection of users identified as having inappropriate access as part of the annual review, inspected evidence that the users' permission level access for key applications had been removed on a timely basis. ***Exception Noted*** For four of the 25 selected users, the access was not removed on a timely basis.

Management response

Management have added an extra step into the recertification process to ensure that Access Management follow up regularly by e-mail/telephone with the other access teams to receive confirmation that access has been removed in a timely manner.

Table showing number of controls tested by each manager and the number of exceptions as reported to Committee in 2016, 2017 and 2018

Fund Manager	Control Objectives Tested	Number of Exceptions	Control Objectives Tested	Number of Exceptions	Control Objectives Tested	Number of Exceptions
	2016 Report	2016 Report	2017 Report	2017 Report	2018 Report	2018 Report
Aviva	171	8	262	7	228	11
BlackRock	137	4	140	5	140	4
GMO	159	2	147	1	126	0
Insight	133	5	109	1	n/a	n/a
Longview	92	0	106	2	n/a	n/a
Oldfields	153	0	154	1	151	1
Pantheon	107	0	112	1	109	0
Record	137	0	146	1	150	0
Standard Life	334	7	326	11	282	6
State Street	165	4	160	3	157	2

REPORT FOR: Pension Fund Committee

Date of Meeting:	7 March 2018
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 Governance Compliance Statement and, subject to their comments, approve it.

.Recommendation
That, subject to their comments, the Committee approve the draft Governance Compliance Statement.

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)."

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		x	Chief Financial Officer
Date: 22 February 2018			
Name: Linda Cohen		x	on behalf of the Monitoring Officer
Date: 14 February 2018			

Ward Councillors notified:	**Not applicable**

Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208 424 1432

Background Papers - None

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Governance Compliance Statement

London Borough of Harrow Pension Fund

March 2018

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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 Pensions Manager

London Borough of Harrow

3rd Floor, West Wing

Civic Centre

Station Road

Harrow

HA1 2XF

TEL: 020 8424 1432

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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