Pension Board Agenda

Date: **Thursday 1 December 2022**

Time: **6.30 pm**

Venue: **Virtual Meeting - Online**

Membership (Quorum 3, including at least one Employer representative and one Scheme Member representative).

Chair: **Mr R Harbord**

Board Members:

Councillor Pritesh Patel	-	Employer representative – London Borough of Harrow
Gerald Balabanoff (VC)	-	Scheme Members' Representative - Pensioners
Patrick O'Dwyer	-	Scheme Members' Representative - Active Members
Dr Simon Radford	-	Employer Representative – Scheduled and Admitted Bodies

Contact: Nikoleta Kemp, Senior Democratic and Electoral Services Officer
Tel: 07761 405898 Email: nikoleta.kemp@harrow.gov.uk

Scan this code for the electronic agenda:

Useful Information

Joining the Meeting virtually

The meeting is open to the public and can be viewed online at London Borough of Harrow webcasts

Filming / recording

This meeting may be recorded or filmed, and if you choose to attend, you will be deemed to have consented to this. Any recording may be published on the Council website.

Agenda publication date: Wednesday 23 November 2022

Agenda - Part I

1. **Declarations of Interest**
   To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from all Members present.

2. **Minutes** (Pages 5 - 10)
   That the minutes of the meeting held on 6 October 2022 be taken as read and signed as a correct record.

3. **Public Questions**
   To note any public questions received.

   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, 28 November 2022. Questions should be sent to publicquestions@harrow.gov.uk

   No person may submit more than one question].

4. **Petitions**
   To receive petitions (if any) submitted by members of the public/Councillors.

5. **Deputations**
   To receive deputations (if any).

6. **Pensions Administration Update to 30 September 2022** (Pages 11 - 18)
   Report of the Director of Finance and Assurance.

7. **Review of Pension Fund Committee Items** (Pages 19 - 26)
   Report of the Director of Finance and Assurance.

8. **Review of Pension Fund Risk Register** (Pages 27 - 42)
   Report of the Director of Finance and Assurance.

9. **2022 Triennial Valuation** (Pages 43 - 92)
   Report of the Director of Finance and Assurance.

10. **Pension Board Work Programme For Future Meetings** (Pages 93 - 96)
    Report of the Director of Finance and Assurance.

11. **Any Other Business**
    Which cannot otherwise be dealt with.

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

Agenda Item No	Title	Description of Exempt Information
13	2022 Triennial Valuation – Appendix 1	Information under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, relating to the financial or business affairs of any particular person (including the authority holding that information).

Agenda - Part II

13. **2022 Triennial Valuation** (Pages 97 - 118)
Appendix 1 to the report of the Director of Finance and Assurance.

Data Protection Act Notice

The Council will record the meeting and will make the recording available to watch on the Council's website.

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

Pension Board

Minutes

6 October 2022

Present:

Chair:	Mr R Harbord	
Board Members:	Pritesh Patel	Employer representative – London Borough of Harrow
	Gerald Balabanoff (VC)	Scheme Members' Representative - Pensioners
	Patrick O'Dwyer	Scheme Members' Representative - Active Members
In attendance:	Dr S Radford	

13. Welcome

Prior to opening the meeting, the Board welcomed back Dr Simon Radford. Members were informed that although no longer a governor at Stanmore College, the College's agreement had been obtained that he remained as their Employer Representative-Scheduled and Admitted Bodies on the Harrow Pension Board for the rest of the term that he had been appointed for.

14. Declarations of Interest

RESOLVED: To note that the declarations of interests had been published on the website and would be taken as read.

15. Minutes

RESOLVED: That the minutes of the meeting held on 28th July 2022, be taken as read and signed as a correct record, subject to the following amendments:

- Page 3, paragraph 9: to read "With regards to the status of the Pension Ombudsman…"
- Page 4, paragraph 6: to read "…due to the number of new elected members appointed to the PFC…"

16. Public Questions

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

17. Petitions

RESOLVED: To note that no petitions had been received.

18. Deputations

RESOLVED: To note that no deputations had been received.

Resolved Items

19. Pensions Administration Update to 30 June 2022

The Board received areport for the quarter ending on 30 June 2022, which provided a summary of the Pension Administration Team's performance and updated Members on a number of other items.

During the discussion that ensued, the following points were highlighted:

1). The pensions administration performance statistics were measured against the national benchmarks for the Quarter to 30 June 2022 and were set out in Appendix 1 to the officer report. Officers reported a slight drop in performance in the last quarter, the main reason for which was the Council's new payroll system which had made the preparation of the pension payroll more labour intensive and had impacted on the speed at which the team carried out its work. Whilst acknowledging officer's assurance that the impact on the team's workload was not expected to be a permanent change, the Board expressed concern over the potential medium and long-term ramifications of an increasing workload and its cost and performance implications for the Council and the Pension Fund.

2). Active membership had increased from 5,309 to 5,545, affected partly by the auto-enrolment exercise, which was completed by the end of July 2022

3). The Annual Benefits Statements were completed before the deadline of 31 August 2022 for most employers in the Fund except for four, all of which were part of the Avanti Schools Trust where the Trust had failed to submit the necessary year-end returns in time. The delay was due to the fact that the Trust had recently changed its payroll contractor without making appropriate handover arrangements and was affecting not only Harrow but other local authorities with Avanti Trust schools. Harrow was aware of the implications caused by the delay and was putting pressure on the Trust to provide the necessary information. The Board added that 30 Harrow schools had left the

Council's in-house payroll system over the past year and would also need to be reminded of the process to avoid similar issues.

4). The Pension Ombudsman had been written to as requested at the last Pension Board meeting but no further updates had been received on the three complaints.

5). Consultation on the updated LGPS Regulations was still being awaited – a process that had been delayed by a number of factors including the election of the new Prime Minister. Department for Levelling Up, Housing and Communities (DLUHC) was expecting that consultation would commence in the autumn, but an exact date was yet to be confirmed

6). The triennial valuation was progressing well and was due to be reported at the next Pension Fund Committee (PFC) meeting on 12 October 2022.

RESOLVED: That the report be noted.

20. Review of Pension Fund Committee Items

The Board received a report which summarised the matters due to be considered by the Pension Fund Committee at its next meeting on 12 October 2022 and invited the Board's comments.

During the discussion that ensued the following key points were highlighted:

1). The PFC meeting had been re-arranged from 19 September to 12 October due to volume of meetings that had to be cancelled during the period of national mourning from 8 to 20 September. At its next meeting, the PFC was expected to consider a number of items, which were outlined in the officer report including the PFC Annual Report which was also part of the agenda for tonight's Pension Board meeting.

2). A key report to be considered by the PFC was the 2022 Triennial Valuation. Members would be asked to approve the London Borough of Harrow Contributions Strategy. Due to commercially sensitive information the report would be considered in a private session. The Board expressed concerns about this and requested that the outcome of the discussion be communicated with Members after the meeting.

3). Investment value had fallen slightly over the last quarter to £929m as of 30 June 2022 as detailed in Appendix 1 to the officer report. This was due to the turbulence in global markets as well as the fall in the value of the £ relative to the US dollar has impacted negatively on the Fund's currency hedging positions. During July the Fund's value increased by £40m. The main contributor was equities, although other asset classes also recovered some of the ground lost in the previous quarter.

RESOLVED: That the report be noted.

21. Draft Pension Fund Annual Report for 2021-22

The Board received a report on the draft Pension Fund Annual Report for the year ended 31 March 2022 and the External Audit Plan, which updated Members on progress made and invited their comments. Members were informed that the draft report and accounts were currently with Mazars who had been appointed as the Council's Auditors. An audit strategy memorandum was included at Appendix 1 which set out Mazar's approach to the audit, while the draft Pension Fund Annual Report itself was included at Appendix 2. Several key points were also highlighted in paragraph 6 to the officer report including areas such as the fund revenue account, account figures for year to end and a scheme overview.

Spotlighting on p.74 of the report, the Chair expressed concern about the investment managers' expenses and questioned if a separate calculation had been used that showed how much saving had been made from pooling. The Board was advised that the London CIV had recently circulated reports setting out amassed savings arising from pooling (both directly comparable and notional) and officers undertook to share these with Board Members following the meeting.

In response to a question on the reason behind the group transfers from other pension funds (p.95 of Appendix 1), the Board was informed that these were made following the termination of a number of shared HR and Legal Services between Harrow and Buckinghamshire Councils.

RESOLVED: that the report be noted.

22. Taskforce on Climate-related Financial Disclosures - Consultation

The Board received a report which summarised the recently issued Government Consultation paper on Governance and Reporting of Climate Change Risks, seeking views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks.

Subject to the outcome of the consultation, reporting on climate and climate-related risks was expected to commence in December 2024 meaning that data on various climate matters would need to be collected over the course of 2023. However, the matrix and targets were likely to prove challenging due to current lack of data consistency and significant risk of double counting, which in turn was putting a strain on administering authorities to get into a position where they can actually begin to report meaningful data. In addition, each fund would need to have a Weighted Average Carbon Intensity (WACI) score. clearly demonstrating what proportion of its investments were covered in reporting. Given that about 80% of Harrow investments were with the London CIV or in passive funds, the Fund would need to work closely with investment managers to monitor investments.

Environment matters, in particular how LGPS investments were made in the context of climate change, was becoming a topic of increased interest for

many organisations and a training session for Harrow Pension Fund Committee members was scheduled for 11 October 2022 to look into these and other matters in greater detail.

The Board welcomed the update, stating that although the measurements set out in paragraph 7 were already a requirement for many organisations, they were not a simple matter and reporting on them was very time consuming, particularly in relation to Scope 3 (all other indirect emissions), which required a robust framework. Members felt that should reporting on environment matters became a legal requirement, it would be extremely difficult or even beyond the scope of some LGPS Funds to meet the requirements. Members also stressed that of paramount importance was having a clear definition of what was going to be measured and felt that their comments should be fed into Harrow Pensions Fund's response to the consultation.

RESOLVED: That the report be noted.

23. Pension Board Work Programme For Future Meetings

Members received a report on the Pension Board Work Programme, which reviewed the Board's work programme to date, listed forthcoming meetings and invited the Board's comments on a suggested work programme for the 2022/23 Municipal Year.

The Board welcomed the work programme and made the following comments:

1). Due to several key pension consultations expected over the coming months, the Board's work programme would need to be flexible and regularly reviewed to allow Members to be adequately briefed.

2). The Board played a key role in ensuring effective governance and administration of the LGPS and had an oversight function over the triennial evaluation, particularly with regards to the Pension Fund's Strategy Statement consultation which was due to be reported at the December Board meeting. A number of policies were expected to be included as appendices to the report and the Board's input and recommendations on these would be welcomed before final approval was sought by the Pension Fund Committee in March 2023.

3). Employers' contribution rates were set by the Fund's Actuary in the form of a rates and adjustment certificate, which determined the contributions for each employer in the scheme. The document had a legal status and employers were expected to apply the rates. There was little or no scope for employers to negotiate with the Actuary, other than in regard to whether secondary contributions were to be expressed as a percentage of pay or a lump sum.

The Chair thanked officers for the report and reminded Members to communicate any training needs they may have with officers to ensure they were kept up to date with the latest developments.

RESOLVED: That the report be noted subject to comments above.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.23 pm).

(Signed) Richard Harbord
Chair

Report for:	**Pension Board**
Date of Meeting:	1 December 2022
Subject:	Pensions Administration Update to 30 September 2022
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1: Pension Administration Performance Monitoring to 30 September 2022

Section 1 – Summary and Recommendations

This report summarises the performance of the Pensions Administration team for the quarter ended 30 September 2022 and updates the Board in respect of a number of other items.

Recommendations:
The Board is requested to note the report.

Section 2 – Report

1. Monitoring the service performance of the Fund is a key responsibility of the Board. The Board has been monitoring comparative pensions administration indicators since June 2017. This report provides information on performance to 30 September 2022.

2. The pensions administration performance statistics measured against the national benchmarks for the Quarter to 30 September 2022 are set out in Appendix 1. The numbers of cases have been included in the table to provide further contextual information about performance. The level of performance had dropped in the previous quarter and was similar in the

quarter to 30 September. This was linked to the impact of the Council's new payroll arrangements, which have made the preparation of the pension payroll more labour intensive, alongside the additional workload which is always required during a triennial valuation. Since the beginning of October performance has begun to improve and is now almost back to where we would expect. As an indication, we had a small backlog (i.e the number of out-of-date work items) of 60 items in early October - this has fallen to 34 in mid-November 2022 - and we expect this improvement to continue. Work on the implementation of scheme member self-service has started, and once this is operational, employer self-service will also be implemented. These measures should help to sustain the improved performance going forward. The Board is invited to comment on this performance.

3. Table 1 below sets out the membership of the Pension Fund in the current year at 30 September 2022, with previous years at 31 March as a comparator. The percentage of active members in the fund is one indicator of the maturity of the fund.

Table 1	Pension Members to 30 Sept 2022			
	31 March 2019	31 March 2020	31 March 2021	30 Sept 2022
Pensioners	5,795	6,004	6,196	6,623
Deferred	6,966	7,037	7,033	6,842
Active Members	5,400	5,410	5,309	5,664
% Active Members	29.7%	29.3%	28.6%	29.6%
Total	18,161	18,451	18,538	19,129

4. The three yearly "re-enrolment" exercise for members who had previously opted out of the LGPS is required was completed in 31 July 2022.

Requirement to Report Breaches of Law

5. The Pension Board reviewed the breaches in law policy and breaches reporting procedure at its meeting on 16th December 2021 – the document was approved by the Pension Fund Committee at its meeting on 9th March 2022.

6. Other than the items disclosed at the last meeting (Annual Benefits Statements issued late in respect of the Avanti Schools Trust because of delays by the Trust in providing year end data – now resolved, and the data breach in respect of a small number of payslips in April 2022), there have been no known breaches of law in the current financial year.

Internal Disputes Cases and Complaints

7. Since the previous report, no further cases have been dealt with under the Internal Dispute Resolution Procedure.

8. As reported to previous meetings of the Board, three complaints had been referred to the Pensions Ombudsman. In all three cases, Harrow had responded to the Ombudsman within his deadlines – in one case in January 2021, and in the other two, October 2021. All three cases relate to decisions taken regarding ill health retirement.

9. The Ombudsman has recently reported on one of the cases from October 2021, and the authority is implementing the actions recommended by the Pensions Ombudsman.

10. Following the Committee's last meeting, officers contacted the Pensions Ombudsman expressing concern about the delays. In a response dated 7 November 2022, it was indicated that the case from January 2021 is likely to be passed to an adjudicator in 3-4 months, and the remaining case from October 2021 is likely to be passed to an adjudicator in 6-7 months. This is clearly unsatisfactory for the complainants and indicates that the Pensions Ombudsman's office continues to be dealing with a large number of complaints, (most of which are not related to the LGPS).

Payment of Employer Contributions

11. Employer contributions are required to be paid in arrears by the 19th of each month. In the current financial year to date, all employer contributions have been paid on time. Employers are contacted if payment has not been received by the due date.

Update on Legislation Changes

12. The major consultation for the LGPS – which is expected to encompass number of topics including investment pooling, investment in "levelling up" and infrastructure, the good governance review and the McCloud remedy - has still not been published. It continues to be the expectation of many who work in the LGPS that it will be published before the end of 2022. It is possible that the range of topics may mean separate consultations being published. A report will be brought to the Board when the consultation is published.

Other Matters

Scheme Advisory Board (SAB)

13. The SAB's most recent meeting was on 10 October 2022. Items considered included
    - Cost management of the scheme
    - The TCFD climate risk reporting consultation
    - Update on the Good |governance review

14. SAB agendas and papers can be found at the following link https://lgpsboard.org/index.php/about-the-board/prev-meetings

Legal Implications

15. There are no direct legal implications arising from this report.

16. The terms of reference for the Board include the Board's role as set out in the following paragraphs.

17. The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:
    - securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
    - securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
    - such other matters the LGPS regulations may specify.

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

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

    a. The effectiveness of the decision-making process
    b. The direction of the Fund and its overall objectives
    c. The level of transparency in the conduct of the Fund's activities
    d. The administration of benefits and contributions

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

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

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

Financial Implications

23. There is a cost of engaging Aquila Heywood to assist in the collection of employer data in readiness to implement fully the McCloud Judgement when the new Regulations become available. The work to deliver the triennial valuation will result in additional fees payable to the Fund's

actuary, Hymans Robertson. These costs are being / will be met from the Pension Fund.

Risk Management Implications

24. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered elsewhere on the agenda for this meeting.

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

Equalities implications / Public Sector Equality Duty

26. Was an Equality Impact Assessment carried out? No

27. There are no direct equalities implications arising from this report, although as the Committee is aware, the McCloud Judgement arose from an Equalities Claim against another public sector pension scheme.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 21/11/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 22/11/2022

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 21/11/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

Appendix 1

Performance Monitoring 01/07/2022 – 30/09/2022

SERVICE	National Benchmarking Target	Harrow Achievement %	Cases within Target	Total Cases
Issue letter notifying of dependent's benefit	**5 days**	**50**	**7**	**14**
Calculation and notification of ill health estimate	**10 days**	**N/A**	**N/A**	**N/A**
Calculation and notification of retirement benefits estimate	**10 days**	**62.22**	**28**	**45**
Issue letter to new pension provider detailing transfer-out quote	**10 days**	**71.43**	**14**	**21**
Calculation and notification of deferred benefits	**10 days**	**83.78**	**31**	**37**
Calculation and notification of retirement benefits	**5 days**	**73.53**	**25**	**34**
Process refund and issue payment	**5 days**	**33.33**	**5**	**15**
Calculation and notification of ill health benefits	**5 days**	**0**	**0**	**1**
Issue statutory notification on receipt of transfer funds	**10 days**	**50**	**1**	**2**

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Report for:	**Pension Board**
Date of Meeting:	1 December 2022
Subject:	Review of Pension Fund Committee Items
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1 – Pension Fund Valuation at 30 September 2022

Section 1 – Summary and Recommendations

This report summarises the matters to be considered by the Pension Fund Committee at its next meeting on 23 November 2022 and invites the Board to agree any comments they might wish to make to the Pension Fund Committee.

Recommendations:
The Board is requested to note the report and comment as necessary.

Section 2 – Report

1. The Pension Fund Committee meeting is on 23 November 2022. At the time of publishing this agenda the meeting had not taken place – an update on decisions taken will be provided. Before the meeting, the slot allocated for development of members' knowledge and skills (training) will include a briefing on the audit process for the Pension Fund Annual Report and Accounts 2021/22 which will be given by Paddy Saad, Audit Manager, Mazars LLP.

2. At its meeting on 23 November 2022 the Committee will consider the following items:

Report	Comments
Part I	
Performance Dashboard and Update on Regular items	The Committee will review the position of the Fund at the end of Q3 2022 (30 September 2022), receive an update on things which have happened in the current quarter and be asked to agree a draft work programme for the Committee for the remainder of the 2022-23 municipal year.
Review of Pension Fund Risk Register	The Committee will review Risk Register. This item is reported elsewhere on this agenda.
Taskforce on Climate-Related Financial Disclosures	The Committee will be asked to review and approve a draft response to the Government Consultation.
2022 Triennial Valuation	The Committee will consider the draft Funding Strategy Statement and be asked to approve that for consultation. Please see report elsewhere on this agenda.
Responsible Investment Policy	The Committee will be asked to consider and review a draft RI Policy
Part II	
Performance Dashboard and Update on Regular items	The Committee will consider comments / reports on investment managers' performance. The report will be considered in part II because of the sensitive nature of investment decisions.
Review of Property Investments (LaSalle Fund of Funds)	The Committee will receive an oral update report on progress since the last meeting. The report will be considered in part II because of the sensitive nature of investment decisions.

3. The Pension Fund's investments were valued at £899m at 30 September 2022. However, the Board should note that withdrawals totalling £12m from global equities (£6m each from LCIV Global Equity Focus Fund and Blackrock Passive) to meet the cash settlements required for currency hedging in early October had been processed in the equities valuation, but the cash settlement was not received in the Fund's bank account

until 3 October 2022. This arises because of the normal delay between the transaction date and the settlement date (3 business days). The details of the valuation are shown at appendix 1.

4. The values of most asset classes fell slightly during the quarter – this was due to the continuing inflationary pressures on the global economy and expectations of rises in interest rates. As previously reported, the fall in the value of the £ relative to the US dollar impacted negatively on the Fund's currency hedging positions. This was exacerbated by the political challenges in the UK at that end of September, which meant that £19.6m of hedging cash settlements was required. As this hedging loss offset some gains in equities during the quarter, redemptions were made from the Fund's overweight equity holdings to meet the cash calls.

5. The Fund's past service liabilities at 30 September 2022 totalled £786m meaning the Fund was approximately 116% funded. This estimate of liabilities is simply a rolled forward projection based on the 2022 triennial valuation. The estimated funding level has improved since the 2022 valuation. This is driven by the fact that the expected return (discount rate) has increased materially since the valuation largely driven by increasing interest rate expectations. This has reduced the liabilities substantially. The assets have held up well over this period of turbulence in financial markets and have not dropped to the same extend as the liabilities – hence the increased funding level. This update is at a single point in time, during a period of volatility in markets. Further market movements will lead to further fluctuations in funding level.

6. It should be noted also that the 116% funding level relates only to "past service" benefits (i.e. service accrued to date). As a scheme which is "open" (i.e. both to future accrual of benefits for existing members and to new joiners), the Fund will also have to meet significant liabilities in respect of future service, which will in turn depend on pay levels and other factors.

7. At 30 September 2022, the value of the Fund's investments was £899m. At that date, 81% of the Fund's investments were pooled or in passive investments which are regarded as being pooled.

Legal Implications

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

9. The terms of reference for the Board include the Board's role as set out in the following paragraphs.

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

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

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

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

    a. The effectiveness of the decision-making process
    b. The direction of the Fund and its overall objectives
    c. The level of transparency in the conduct of the Fund's activities
    d. The administration of benefits and contributions

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

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

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

Financial Implications

16. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no direct financial implications arising from this report.

Risk Management Implications

17. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered by the Board at this meeting.

18. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy

Equalities implications / Public Sector Equality Duty

19. Was an Equality Impact Assessment carried out? No

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

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 21/11/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 17/11/2022

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 21/11/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone: 020 8736 6552

Background Papers: None

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Fund Valuation and Performance

March 2022 to March 2023

Asset Class	Value 31.03.2021 £'000	Value 30.04.2022 £'000	Value 31.05.2022 £'000	Value 30.06.2022 £'000	Value 31.07.2022 £'000	Value 31.08.2022 £'000	Value 30.09.2022 £'000		Allocation 30.09.2022 %	Strategic Allocation %	Strategic Range %
Global Equities											
LCIV - Global Equity Focus Fund	127,495	124,788	125,859	121,282	130,520	129,994	117,181		13	10	
LCIV - Blackrock Passive	269,113	260,570	255,224	241,501	257,001	261,414	242,976		27	24	
LCIV - Sustainable Equity Fund	73,314	68,921	68,967	66,897	71,786	71,767	67,920		8	8	
LCIV - Emerging Market Equity Fund	0	2,073	33,476	62,393	71,203	74,269	69,923		8	8	
GMO	71,839	69,436	37,436	6,856	0	0	0		0	0	
Record passive currency hedge	-4,041	-9,303	-8,929	-15,936	-7,141	-15,857	-23,461		-3		
Total Global Equities	537,719	516,484	512,033	482,993	523,370	521,587	474,540		**53**	**50**	**45-55**
									Inc Hedging		
Diversifying Return Assets											
Diversified Growth Fund - Insight	93,776	92,072	86,519	83,304	81,404	78,084	65,927	**	8	5.5	
Property - LaSalle	71,330	71,619	71,935	73,515	73,380	72,986	70,087		8	6	
Renewables - LCIV Renewables Fund	13,833	11,210	12,111	12,111	12,253	13,014	17,984		1	5	
Infrastructure - LCIV Infrastructure	31,347	31,347	31,347	34,846	34,846	41,472	43,304		4	7.5	
Private Equity - Pantheon	5,371	5,371	5,371	5,218	5,218	5,218	4,877		1	1	
Total Diversifying Return Assets	215,658	211,619	207,284	208,995	207,101	210,775	202,178		**22**	**25**	**20-30**
Risk Control Assets	** Insight Redemption of £5m in May, £3m in June, £3m in July,£3m in Aug22, £10m in Sep22										
Bonds - Blackrock - FI	42,083	39,930	38,869	35,997	37,659	34,279	29,817		3	5	
Bonds - Blackrock - IL passive LCIV	46,463	43,079	39,265	37,178	39,413	36,064	33,243		4	5	
Alternatives - LCIV Alt Credit Fund	103,777	102,592	100,124	95,414	96,924	97,823	93,952		10	10	
Bonds - LCIV Global Bond Fund	46,816	44,695	44,739	43,243	44,409	43,358	41,325		5	5	
Total Risk Control Assets	239,138	230,296	222,996	211,832	218,406	211,524	198,338		**23**	**25**	**20-30**
Cash & NCA											
Cash Managers (Blackrock)	10,736	10,740	10,746	7,755	7,765	7,773	7,784				
Cash NatWest	7,288	9,319	12,214	9,914	10,095	5,252	13,091				
Cash Custodian (JP Morgan)	5,977	3,382	3,381	3,380	280	280	279				
Blackrock Dividends (Pending Reinvestment)	291	291	578	578	579	865	868				
Debtors and Creditors	1,054	1,368	-1,414	3,261	1,058	1,401	1,504				
CIV Investment	150	150	150	150	150	150	150				
Total Net Current Assets	25,496	25,251	25,656	25,039	19,928	15,721	23,676		3	0	
Total Assets	1,018,011	983,650	967,969	928,858	968,805	959,607	898,732		100	100	
Assets Pooled											
- LCIV Funds	39.0%	39.2%	43.0%	47.0%	47.7%	49.2%	50.2%			53.5%	
- Other (Passive) Funds - Regarded as Pooled	31.0%	30.9%	30.4%	30.0%	30.6%	31.0%	30.7%			29.0%	
Total % Pooled	70.0%	70.1%	73.5%	77.0%	78.3%	80.2%	81.0%			82.5%	

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Report for:	**Pension Board**
Date of Meeting:	1 December 2022
Subject:	Review of Pension Fund Risk Register
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	None
Enclosures:	Appendix 1 - Risk Score Summary Appendix 2 - Pension Fund Risk Register - Key Risks (Red or Amber rated) Appendix 3 - Pension Fund Risk Register - Lower Risks (Green rated)

Section 1 – Summary and Recommendations

This report sets out the updated Pension Fund Risk Register for the Board to review.

Recommendations:
The Board is requested to consider the updated risk register and comment accordingly.

Section 2 – Report

Background

1. In accordance with best practice the Pension Fund has a risk register which was first considered by the Pension Fund Committee in March 2015. The risk register has since been reviewed regularly, and will be reviewed by the Pension Fund Committee at its meeting on 23 November 2022.

2. In reviewing the existing risk register, officers have followed the Council's standard practice and approach to the scoring of each risk (assessing the likelihood and impact on the Pension Fund) – this is set out at Appendix 1, which also indicates which risk numbers are associated with each risk score.

3. The revised presentation of the risks agreed by the Pension Fund Committee in November 2020 is retained. This highlights in a single list (Appendix 2) the twelve risks whose scores equate to an "Amber" (8 risks) or "Red" rating (5 risks). It is these risks which are likely to have the biggest impact on the Fund and hence require particularly close attention.

4. Those risks which are considered lower and whose current scores equate to a "green" rating" (24 Risks) are shown in appendix 3. As agreed in November 2020, those risks which are really "business as usual" activity and managed operationally on a day to day basis have been removed from the risk register. Those continue to be scored as "likelihood is very low or almost impossible", and "impact is marginal or negligible" (E3, E4 or F3). This action does not preclude any of the items being escalated to the significant risks list should they increase in likelihood or impact in the future.

5. A number of the key risks are unchanged since the last review. However, further mitigations have been identified against some of those risks shown in Appendix 2. In those cases, the changes have been shaded light green for ease of reference.

6. Since the last review, a new red risk has been identified – this relates to the Fund becoming more cash negative from 2022/23 as a result of the likely level of the increase in Pensions payable (this is linked to the Consumer Prices Index - CPI) and a reduction in the employer contributions from April 2023. In the register, the approaches to mitigating this risk by ensuring adequate liquidity in the Fund's investments are set out. These include the development of a long term cash flow model which will inform the Fund's review of its Investment Strategy. Once that work has been completed it is expected that the risk will be reduced, at least to amber. The cash flow position does not at this point impact on the long term solvency of the Fund – this is addressed in the Triennial Valuation and will be reflected in the Funding Strategy Statement – the draft of which is elsewhere on the agenda for this meeting.

7. As previously reported, three of the four "red risks" relate to the performance of the Fund's Investments. These, and some of those risks scored amber are linked to the impact of economic and market events which are outside of the Fund's control. Therefore, whilst the Committee puts in place a range of mitigatory measures (for example diversification between asset classes and managers, the engagement of appropriately qualified external professionals to provide investment or actuarial advice, and regular monitoring and review of the fund's investments and liabilities), ultimately these risks cannot be eliminated or managed down

to a level where the impact is negligible. They have to be tolerated whilst continuing to apply these mitigating measures appropriately.

8. The remaining red risk relates to the Regulatory impact of Court judgements, particularly the McCloud Judgement, which the Committee has previously been made aware of. Work to mitigate this risk by collecting additional historic data from employers continues. At present the Government has still not provided details of how McCloud will be implemented in the LGPS, and until this happens the precise impacts cannot be quantified.

Legal Implications

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

10. The terms of reference for the Board include the Board's role as set out in the following paragraphs.

11. The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:
    - securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
    - securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
    - such other matters the LGPS regulations may specify.

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

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

    a. The effectiveness of the decision-making process
    b. The direction of the Fund and its overall objectives
    c. The level of transparency in the conduct of the Fund's activities
    d. The administration of benefits and contributions

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

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

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

Financial Implications

17. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no specific financial implications arising from this report.

Risk Management Implications

18. Risk Management is the subject of this report – one of the key governance requirements for the Pension Fund is the appropriate management of risk, and maintaining a separate a risk register helps to regulate that process effectively.

Equalities implications / Public Sector Equality Duty

19. Was an Equality Impact Assessment carried out? No

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

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 22/11/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 22/11/2022

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 22/11/2022

Mandatory Checks

Ward Councillors notified: Not applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

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PENSION FUND RISK REGISTER

LIKELIHOOD				
A Very high				
B High				
C Significant	**G22**	**4,5,7**	**8, 9, 10, 12,13**	
D Low	**G21**	**G1, G5, G6, G8, G9, G10, G14**	**1, 2, 3, 6, 11**	
E Very Low		**G2**	**G3, G4, G7, G12, G13, G15, G16, G17, G18, G19, G20, G23, G24**	
F Almost Impossible			**G11**	
IMPACT	**4 Negligible Impact/Benefit**	**3 Marginal Impact / Minor Benefit**	**2 Critical Impact / Major Benefit**	**1 Catastrophic Impact / Exceptional Benefit**

DEFINITION OF TERMS

LIKELIHOOD

A Very high	Greater than 80% (almost certainly will occur)
B High	51-80% (more likely to occur than not)
C Significant	25-50% (fairly likely to occur)
D Low	10-24% (low, but could occur)
E Very Low	3-9% (extremely unlikely)
F Almost Impossible	0-2%

IMPACT

Catastrophic	Services could not be sustained or major project fails to deliver
Critical	Serious disruption to services
Marginal	Small effect on services
Negligible	Trivial effect on services

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PENSION FUND RISK REGISTER - KEY RISKS

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
KEY RISKS									
	REGULATORY								
1	Changes to national pension requirements and/or HMRC rules not being implented.	The Administering Authority considers all consultation papers and new regulations and, with assistance from its advisers and suppliers, implements them as appropriate.	D2	D2	Officers monitor current developments through liaison with suppliers and specialist advisors, and participation in network discussions with peers in other LGPS funds.	Treasury and Pensions Manager	D2	ongoing	Director of Finance
	FUNDING - ASSETS AND LIABILITIES								
2	The Fund's assets are not sufficient to meet its long term liabilities. Fall in returns on Government bonds leading to rise in value placed on liabilities and an increase in deficit	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations, and monitored between those valuations. Funding Strategy Statement sets out plans / approach to ensure that assets are sufficient to meet liabilities in full over the long term (lifetime of the Fund). The Fund's investment strategy, as described in the Investment Strategy Statement, is regularly reviewed to seek to ensure that optimum returns are realised to meet its liabilities. Stabilisation modelling (to determine contribution rates) allows for the probability of the fall in returns on Government bonds within a long term context.	D2	D2	The 2022 Triennial Valuation is nearing completion. That has identified an improvement in the funding level of past service liabilities, and will set employer contribution rates which are appropriate to ensure the long term solvency of the Fund. The valuation process includes "stress testing" of a number of scenarios to determine whether the long term funding plan is sufficient to withstand "unexpected shocks". A further review of the Investment Straegy will be carried out in 2023 to ensure that this remains appropriate going forward.	Treasury and Pensions Manager	D2	ongoing	Director of Finance
3	The relative movement in the value of the Fund's assets does not match the relative movement in the Fund's liabilities	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The Funding Strategy and Investment Strategy Statements are regularly reviewed in line with the triennial valuation with the objective of ensuring the long term solvency of the Fund.	D2	D2	The Fund receives quarterly updates of its valuatuion based upon a "roll forward" of data and assumptions used in the most recent triennial valuation.	Treasury and Pensions Manager	D2	ongoing	Director of Finance

PENSION FUND RISK REGISTER - KEY RISKS

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
KEY RISKS									
4	Pay and price inflation is higher than anticipated increasing the value of liabilities	Fund assets and liabilities are subject to regular assessment through triennial actuarial valuations. The focus of the actuarial valuation is on real returns on assets, net of pay and price increases. Inter-valuation monitoring provides early warning of of adverse movements. Some investment in bonds helps to mitigate risks.	C3	C3	The Fund receives quarterly updates of its valuatuion based upon a "roll forward" of data and assumptions used in the most recent triennial valuation.	Treasury and Pensions Manager	C3	ongoing	Director of Finance
5	Demographic factors change increasing the cost of Fund benefits thereby increasing liabilities.	At each triennial valuation assumptions are reviewed to ensure that they remain appropriate.	C3	C3		Treasury and Pensions Manager	C3	ongoing	Director of Finance
	FUNDING - INVESTMENT STRATEGY								
6	Long term investment strategy in relation to fund liabilities is inappropriate	External investment adviser, actuary and performance measurement consultant provide specialist guidance, including asset/liability and other modelling, to the Pension Fund Committee. Independent Advisors provide additional scrutiny, testing and validation of their work. Investment strategy options are considered as as an integral part of the funding strategy. Strategy is documented, regularly reviewed and approved by Pension Fund Committee. Strategy is in accordance with LGPS investment regulations. The Pension Fund Committee has explicitly considered its tolerance of risk and this is reflected in its asset allocation strategy.	D2	D2	The next review of the Investment Strategy will begin in Q1 of 2023.	Treasury and Pensions Manager	D2	ongoing	Director of Finance
7	Significant allocation to any single asset category and its underperformance relative to expectation. Failure of individual investments to perform up to expectation	Diversified investment strategy and investment management structure minimises impact at fund level of any individual investment failure. Performance measurement consultant and investment adviser supply regular review of the performance of the portfolio as a whole and of the individual managers. Asset allocation is periodically reviewed and adjustments made if required. Fund rebalancing to benchmark allocation is considered on a quarterly basis against relevant triggers.	C3	C3		Treasury and Pensions Manager	C3	ongoing	Director of Finance

PENSION FUND RISK REGISTER - KEY RISKS

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
KEY RISKS									
8	General fall in investment markets leading to poor performance.	The Committee, as advised by the actuary considers long term returns. Diversification between asset classes and regular monitoring of investment performance.	C2	C2		Treasury and Pensions Manager	C2	ongoing	Director of Finance
9	Failure by fund managers to achieve benchmark (passive) or performance target (active)returns for their given mandates	Diversification of managers and asset classes mitigates the impact of a single manager under-performing. Managers are selected via an extensive process of "due diligence." Manager performance is reviewed by Committee at each meeting against benchmark and performance objectives and with investment adviser's report; poor performance is highlighted and addressed by the Committee and officers. Regular dialogue is maintained with the investment advisers and managers; the Committee meets the managers once a year and officers meet them on at least one further occasion. Procurement frameworks and adviser's advice are used to fast track the appointment of new managers if changes are required	C2	C2	As Investment pooling is progressed, the London CIV adds an additional level of monitoring and scrutiy of managers, and offers options to improve speed of implementation if changes in manager are required.	Treasury and Pensions Manager	C2	ongoing	Director of Finance
10	Fund assets fail to deliver returns in line with anticipated returns underpinning the triennial valuation	Long term returns are anticipated on a prudent basis and progress is analysed on at least a three year's basis. Assets are invested on the basis of specialist advice in a suitably diversified manner across asset classes, geographies, managers etc.	C2	C2		Treasury and Pensions Manager	C2	ongoing	Director of Finance
NEW	**CASH FLOW**								
	OPERATIONAL								
11	Concentration of knowledge in a small number of officers and risk of departure of key staff	Appoint suitably qualified staff. Ensure training and succession planning in place	D3	D2	With small teams it is in practice difficult to eliminate this risk. However, mitigating measures to improve resilience include training team members to enable coverage of key tasks to be maintained.	Treasury and Pensions Manager	D2	ongoing	Director of Finance

PENSION FUND RISK REGISTER - KEY RISKS

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
KEY RISKS									
12	Regulatory impact of court judgements creates significant administrative workload	McCloud judgement, relating to "age equality" impact of transitional arrangements for the move from the 2008 "final salary" to the 2014 "career average" scheme requires review and recalculation for a significant part of the Fund's members.	C2	C2	Discussions ongoing at national level, including with software suppliers, to set a realistic timescale for implementation of changes. Officers monitoring these discussions whilst assessing workload impacts and possible approaces to manage this.	Treasury and Pensions Manager	C3	ongoing	Director of Finance
NEW	**CASH FLOW**								
13	The Fund requires sufficient liquidity to pay pensions as these fall due. The Fund is already slightly cash flow negative - this will increase from April 2023.	The recent significant increase in inflation is likely to lead to a similar (10.1%) increase in pensions payable from April 2023, while at the same time the contributions payable by employers will decrease as a result of the long term funding position identified in the 2022 triennial valuation.	C2	C2	The Fund's strategic asset allocation means that 80% of its investments will be held in funds which have high (daily or weekly) liquidity - this means that cash can be withdrawn easily when required. As the 2022 Triennial valuatiion is completed, a review of the Fund's Investment Strategy will be carried out. The need for adequate liquidity requirements will form part of that review - to assist that work, a long term cash flow forecast is being developed by the und's Actuary. A number of the Fund's current investments are in funds which are straightforward to switch from "non distributing" to "distributing share classes" should that be approptriate.	Treasury and Pensions Manager	C3	ongoing	Director of Finance

PENSION FUND RISK REGISTER - LOWER SCORED RISKS (Green Rated)

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	REGULATORY								
G1	Changes by regulation to particular employer participation in the Local Government Pension Scheme with impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers and new regulations and, with assistance from its advisers, implements them, including amending strategies, as appropriate.	D3	D3		Treasury and Pensions Manager	D3		Director of Finance & Assurance
G2	Other UK Legislation (public sector exit cap) conflicts with LGPS Regulations	Government introduced legislation to limit the cost of "exit payments" to £95k, but did not issue updated LGPS Regulations incorporating the necessary changes to align with this. Letter containing Ministerial Guidance issued 28/10/2020 but does not have force of law. Software changes will also be required once the new LGPS Regulations are approved.	C3	E3	Government made a further change to the Regulations in February 2021 - repealing the "Exit Cap". The latest guidance aligns with the LGPS Regs as the defination of "Special Severance Payments" excludes those which are statutory.	Treasury and Pensions Manager	E3		Director of Finance & Assurance
	GOVERNANCE								
G3	Pension Fund Committee members have insufficient knowledge to make correct decisions	Regular training is provided via a structured training programme to allow Members to review and challenge recommendations. Actuarial, investment, independent and officer advice is available to assist Members in making their decisions. The Council's in-house Legal Department provides advice as appropriate.	E2	E2	Fund Training Strategy to be approved in March 2022. This will include regular training sessions will be arranged before each Committee to ensure that knowledge remains up to date.	Treasury and Pensions Manager	E3	ongoing	Director of Finance & Assurance
G4	Inadequate investment and actuarial advice is available to the Pension Fund Committee or sound advice is not heeded	Properly considered appointment of actuary and investment consultant with relevant experience and professional standards in place. Appointment of additional independent advisers. The Administering Authority, via its Pension Fund Committee and Pension Board maintains close contact with its specialist advisers and, in addition to receiving "statutory" reports, makes of requests for specific reports when required. Advice is delivered at formal meetings and recorded appropriately.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance
G5	Officers do not have sufficient knowledge and experience to advise the Committee and manage the Fund.	Suitably qualified staff appointed. Skills kept up to date through ongoing professional development (including training and technical reading); liaison with other funds and professional bodies and other networks. Training and development needs monitored through annual and monthly meetings with managers. Use of external advisers where appropriate	D3	D3	Fund Training Strategy to be approved in March 2022.	Treasury and Pensions Manager	E3		Director of Finance & Assurance

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
G6	Failure to maintain proper oversight of the administration of the Fund	The Penson Fund Committee has responsibility for exercising the Administering Authority's responsibilities clearly set out in its terms of reference. The Pension Board provides support and constructive challenge to support the oversight of the administration of the Fund.	D3	D3	Regular reports on Administration Performance are considered quarterly by the Pension Board.	Treasury and Pensions Manager	E3	ongoing	Director of Finance & Assurance
	FUNDING - ASSETS AND LIABILITIES								
G7	Pension Fund objectives are not defined and agreed	Objectives are defined in the Funding Strategy Statement which is reviewed regularly by the Pension Fund Committee	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance
G8	The Fund's pensioners are living longer than assumed in actuarial assumptions thereby increasing liabilities.	At each triennial actuarial valuation life expectancy assumptions are specifically reviewed taking into account both national and local longevity experience. The Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might affect the assumptions underpinning the valuation	D3	D3		Treasury and Pensions Manager	D3		Director of Finance & Assurance
G9	Increase in number of early retirements due to service reductions and/or ill-health retirements.	Employers are charged the "strain" cost of non-ill-health retirements; ill health retirement experience is closely monitored. Controls are included in admission agreements for new bodies joining the Fund and insurance may be available. Experience between triennial valuations is monitored and incorporated in the valuation process.	D3	D3		Treasury and Pensions Manager	D3		Director of Finance & Assurance
G10	Structural changes in an employer's membership (eg fall in active membership) leading to non-recovery of past service deficits	Monitor at each valuation and appropriate investment strategy is implemented. Past service deficits are being recovered by cash rather than percentage of payroll.	D3	D3		Treasury and Pensions Manager	D3		Director of Finance & Assurance
G11	Insufficient assets to meet short and medium term liabilities	Medium term requirements are regularly reviewed, and cashflow is monitored and reconciled on a daily basis. Most of the Fund's investments are liquid and can be accessed relatively quickly.	E2	F2		Treasury and Pensions Manager	F2		Director of Finance & Assurance
G12	Reductions in payroll causing insufficient deficit recovery payments	Reviewed at triennial valuation. Stabilisation mechanism permits appropriate contribution increases. Deficit contributions are a fixed monetary amount rather than a percentage of payroll.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance

PENSION FUND RISK REGISTER - LOWER SCORED RISKS (Green Rated)

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	FUNDING - INVESTMENT STRATEGY								
G13	Losses arise due to currency fluctuations	The Council has established a currency hedging strategy 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.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance
G14	Environmental, social and governance issues reduce the Fund's abilities to generate long term returns	The Fund expects its managers to act in the best financial interests of the Fund which involves considering the effects of ESG issues on the performance of companies in which they invest. During 2021 the Fund updated its Investment Strategy Statement and realigned investments incresae its ESG Focus. It receives an ESG dashboard anually (in March) prepared by its Investment Consultants.	D3	D3	The Fund is currently developing a specific Responsible Investment Policy which will reflect the PF Committee's views on climate change and other ESG issues and inform investment decisions going forward.	Treasury and Pensions Manager	D3		Director of Finance & Assurance
	SECURITY								
G15	Investment manager may not have appropriate control framework in place to protect Pension Fund assets	Client agreements which include the control framework are in place. Assets are held by external custodians separate from the investment managers; custodians are expected to comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Each investment manager's annual audit of internal controls is reviewed by officers and the Pension Fund Committee. Investment managers maintain an appropriate risk management framework to minimise the level of risk to pension fund assets.	E2	E2	Whilst this risk is outside the Fund's control, the annual audits reveal very few exceptions to the intended control processes operating correctly. An aspiration that the likelihood is almost impossible is therefore a reasonable aspiration but timescales are dependent on the managers.	Treasury and Pensions Manager	F2	N/A	Director of Finance & Assurance
G16	Negligence, fraud or default by individual investment manager.	Legal requirements on fund managers set out in investment management agreements, FSA and other regulatory requirements; separation of investment management and custody arrangements; annual review of operational controls	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance
G17	Custody arrangements may not be sufficient to safeguard fund assets	Client agreements which include the control framework are in place. External custodians comply with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations. Regular reconciliations carried out to check external custodian records	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance
G18	Failure of custodian	Use custodians under banking and FSA regulation	E2	E2		Treasury and Pensions Manager	E2		Director of Finance & Assurance

PENSION FUND RISK REGISTER - LOWER SCORED RISKS (Green Rated)

Risk number			Risk Rating at inception (after controls)	Current risk rating (after controls)	Controls underway or planned	Control owner	Target risk rating	Target date	Risk owner
	OPERATIONAL								
G19	Major emergency	Business Continuity Plan in place. Service delivery during 2020 and 2021 Covid-19 Pandemic demonstrated resilience of remote working arrangements.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance
G20	Systems and data may not be secure and appropriately maintained	Authentication controls including regular password changes and robust user administration procedures are in place. Access rights restricted. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. System is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met. Staff working from home use only LBH equipment and secure log in arrangements. No printing of documents is permitted while working remotely.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance
G21	Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with scheme rules.	Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing. Procedures exist to identify any non-payment of contributions. Internal audit reviews take place regularly and there is an External Audit review of the accounts annually	D4	D4		Treasury and Pensions Manager	D4		Director of Finance
G22	Overpayments made	Most overpayments result from deaths not being notified promptly. In addition to informal contacts, life certificates are regularly sent out and Harrow is a member of the National Fraud Initiative. Pensions Admin participate in the "tell us once" service, so are notified of many deaths through registrars via this service.	C4	C4		Treasury and Pensions Manager	C4		Director of Finance
G23	Breach of data protection legislation.	Data security protocol in place. Staff made aware of importance of ensuring data is properly protected.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance
G24	Effect of possible increase in employer's contribution rate on service delivery of Administering Authority and admission and scheduled bodies.	A stabilisation mechanism has been agreed as part of the funding strategy and other measures are in place to limit sudden increases in contributions.	E2	E2		Treasury and Pensions Manager	E2		Director of Finance
	ACCOUNTING								
	None								

Report for:	**Pension Board**
Date of Meeting:	1 December 2022
Subject:	2022 Triennial Valuation
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No - except for Appendix 1 which is exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
Wards affected:	Not applicable
Enclosures:	Appendix 1: (EXEMPT) Initial Valuation Results Appendix 2: Draft Funding Strategy Statement

Section 1 – Summary and Recommendations

This report summarises progress made to date in respect of the 2022 triennial valuation and consults the Board about the draft Funding Strategy Statement.

Recommendations:

The Board is requested to:

1. note the report.
2. consider the draft Funding Strategy Statement and make any comments on that for consideration by the Pension Fund Committee.

Section 2 – Report

1. The LGPS Regulations require each LGPS Fund to carry out a triennial valuation of its assets and liabilities. As previously reported, work is underway to produce the valuation, which will report the Fund's position as at 31 March 2022. The valuation is being carried out by the Fund's Actuary, Steven Law, of Hymans Robertson LLP.

2. At the end of the process, the actuary will produce a report setting out details of the Fund's assets and liabilities at the valuation date, and the probability of the scheme being fully funded in the future. The actuary will also issue a Rates and Adjustments Certificate, which will set out details of the required employer contributions for each of the Fund's employers for the three years 1 April 2023 to 31 March 2026. The final report will be submitted to the Pension Fund Committee in March 2023.

3. The Pension Fund Committee has to date received briefings and reports about the Valuation process as follows
    - before the meeting on 24 November 2021, a training session setting out the process and timetable for the valuation.
    - 9 March 2022 a report and presentation covering the key assumptions to be used in the Valuation
    - 13 October 2022 a report and presentation detailing the initial "whole fund" results and a proposed contribution strategy for the Council (the main employer, accounting for over 80% of scheme members) – see paragraph 4 below
    - On 23 November it will be asked to approve the draft Funding Strategy Statement – see paragraph xx below

Initial Valuation Results

4. These were reported to the Pension Fund Committee on 12th October 2022. They indicate that the funding position has improved, to 96% at 31 March 2022, and that the overall position indicated that a reduction in employer contribution rates is sustainable without jeopardising the long term objective of being fully funded in 20 years' time.

5. To meet the requirements placed upon actuaries, the proposed contribution strategies were "stress tested" against a number of scenarios to ascertain whether these were robust.

6. The presentation given to the Pension fund Committee by the actuary, Steven Law of Hymans Robertson is attached **at Appendix 1 – EXEMPT.** To discuss this in detail the Board would need to move into part II.

Funding Strategy Statement

7. A key requirement once the results are known is the approval of a Funding Strategy Statement (FSS) – this document sets out how the Fund proposes to ensure that, over the life of the Fund it will be able to meet its present and future liabilities in full. Hymans Robertson have prepared a draft FSS – this

is attached at **Appendix 2**. To simplify the FSS, some items previously included in the body of the Statement are now in appendices as follows

- Regulatory Framework
- Roles & responsibilities
- Risks and Controls
- Actuarial assumptions

8. The FSS includes some key policies as appendices
   - Cessations
   - Contribution Reviews
   - Pass Through Arrangements

   These will clarify and standardise arrangements with any admitted bodies.

9. Before finally approving the FSS, the LGPS Regulations require the Fund to consult with "*persons the administering authority considers appropriate*", and that this must include "…*meaningful dialogue with representatives of other participating employers*". The Board is one of the parties from which the Committee is seeking views on the proposed FSS. To meet this requirement more fully an employers' forum will be held on 8th December 2022, at which Steven Law will present the Valuation results and FSS. This will be an online event which it is hoped will encourage good attendance. We will also publish the document on the Harrow Pension Scheme website.

10. Detailed results for the remaining employers will be available in the last week of November – these will be shared with employers in advance of the employers' forum. Further to the issue reported at the Board's last meeting, data to make the calculations without the need for a "work around" was finally obtained from the Avanti Group of academy schools.

Next Steps

11. The actuary is working to produce a long-term cash flow forecast, highlighting in particular the potential impact of the likely inflation increase in benefits payable from April 2023 and the reductions in employer contribution rates. This will be used to inform the Investment Strategy Review which will begin in Q1 of 2023.

12. The timetable for the remainder of the Triennial Valuation process is summarised as follows:
    - Employer Forum - 8 December 2022
    - PF Committee – 29 March 2023
      - Final valuation report
      - Approval of Funding Strategy Statement
    - By 31 March 2023 (statutory deadline) – Final Report including Rates and Adjustments Certificate issued
    - From 1 April 2023 onwards – new contribution rates payable by employers.

Legal Implications

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

14. The terms of reference for the Board include the Board's role as set out in the following paragraphs.

15. The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:
    - securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
    - securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
    - such other matters the LGPS regulations may specify.

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

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

    a. The effectiveness of the decision-making process
    b. The direction of the Fund and its overall objectives
    c. The level of transparency in the conduct of the Fund's activities
    d. The administration of benefits and contributions

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

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

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

Financial Implications

21. There is a cost of engaging Aquila Heywood to assist in the collection of employer data in readiness to implement fully the McCloud Judgement when the new Regulations become available. The work to deliver the triennial valuation will result in additional fees payable to the Fund's actuary, Hymans Robertson. These costs are being / will be met from the Pension Fund.

Risk Management Implications

22. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered elsewhere on the agenda for this meeting.

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

Equalities implications / Public Sector Equality Duty

24. Was an Equality Impact Assessment carried out? No

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

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 21/11/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 22/11/2022

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 21/11/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

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HYMANS ROBERTSON

London Borough of Harrow Pension Fund
Funding Strategy Statement
MMMM 20YY

Contents

1 Welcome to the London Borough of Harrow Pension Fund's funding strategy statement

This document sets out the Funding Strategy Statement (FSS) for the London Borough of Harrow Pension Fund.

The London Borough of Harrow Pension Fund is administered by the London Borough of Harrow, known as the administering authority. The London Borough of Harrow worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for the administering authority to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, please contact Treasury and Pensions in the first instance at treasurymanagement@harrow.gov.uk.

1.1 What is the London Borough of Harrow Pension Fund?

The London Borough of Harrow Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. The investment strategy is set out in the Fund's Investment Strategy Statement which can be found on the fund's website.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the London Borough of Harrow pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- The primary rate also includes an allowance for the fund's **expenses**.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	**Local authority**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	70%	70%	50-80%
Maximum time horizon	20 years	20 years	20 years	15 years		Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	**Local authority**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Secondary rate	Monetary amount or % of pay at the discretion of the administering authority					
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority				Reduce contributions by spreading the surplus over the remaining contract term, where deemed appropriate by administering authority
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority. Please see the Fund's policy on pass through (Appendix G) for further information*

*** See Appendix D for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the fund's local authority.

For the 3 years from 1 April 2023, the contribution rate for the London Borough of Harrow will be frozen at 16.0% plus £6,320,000. Thereafter (from 1 April 2026) the annual increase or decrease in this employer's contribution rate will not exceed 1.0% of payroll.

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in Appendix F. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is contribution rate pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across

a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments. Employers will be asked to make strain payments as a single lump sum.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance made available by the fund to manage ill-health early retirement costs. The option to use external insurance was communicated during the consultation phase of this FSS.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each triennial valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4.2).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement – see Section 5.3 below).

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). Where an academy school participates in a MAT, it is the MAT rather than the individual academy school that is the scheme employer and therefore the MAT is responsible for all participating schools' allocated assets and liabilities. Contribution rates may be certified at individual school level or a common rate certified for all employers in the MAT, depending on what the MAT has agreed with the Fund.

At the time of writing, the fund has the following MATs participating:

Academy pool	Pooling arrangement	Contribution rate approach
Bentley Wood and Aylward MAT	Full risk-sharing of past and future service costs	Common total rate
Avanti House Schools	Full risk-sharing of past and future service costs	Common total rate

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. The fund's approach is that a new contractor will participate in the fund via a fixed contribution rate (aka "pass through" agreement) with the letting employer. The Fund's policy on pass through is detailed in Appendix G.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower

- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using a basis derived using the same methodology and parameters that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is set out in Appendix E.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The fund's policy on the payment of exit credits is set out in the cessation policy (Appendix E).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The fund's policy regarding employer flexibility on exit is set out in the cessation policy (Appendix E).

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and attending an open employers' forum. Any policy changes from the previous version of the FSS were highlighted to employers during this process.

A3 How is the FSS published?

The FSS is:

- published on the administering authority's website
- sent to each participating employer
- included the in full statement or summary in the fund's annual report and accounts
- sent to members of the local pension board
- available freely available on request.

The FSS is published at https://www.harrowpensionfund.org/.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at https://www.harrowpensionfund.org/.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available at moderngov.

Details of the key fund-specific risks and controls are set out in the risk register which is regularly reviewed by the pensions committee and is included in the agenda and papers pack of those meetings. Please find the agendas and papers at moderngov.

C2 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. The fund included climate scenario stress testing in the contribution modelling exercise for the London Borough of Harrow at the 2022 valuation. The modelling results under the stress tests yielded likelihoods of success that were slightly lower than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provided assurance that the modelling approach does not significantly underestimate the potential impact of climate change. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for other employers. However, given that the same underlying model is used for all employers and that the London Borough of Harrow makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set employer contribution rates?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns													
		Index Linked Gilts (medium)	Index Linked Gilts (long)	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	Global Corporate FI GBP Hedged	All World Equity GBP Hedged	CorpMedium A	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	-1.9%	-3.1%	-1.2%	-0.6%	-2.5%	0.7%	1.4%	1.7%	0.6%	-0.3%	-0.1%	1.6%	-1.7%	1.1%
	50th %'ile	0.2%	-0.7%	9.4%	4.4%	5.8%	5.9%	3.2%	3.5%	2.2%	5.9%	1.6%	3.3%	-0.5%	2.5%
	84th %'ile	2.4%	2.0%	20.1%	9.5%	14.4%	11.2%	5.1%	5.2%	3.5%	11.9%	3.2%	4.9%	0.7%	4.3%
20 years	16th %'ile	-1.5%	-2.6%	2.4%	1.4%	0.1%	2.6%	2.1%	2.8%	1.6%	1.9%	1.1%	1.2%	-0.7%	1.3%
	50th %'ile	0.1%	-0.9%	10.0%	5.0%	6.3%	6.5%	3.8%	4.4%	2.8%	6.4%	2.1%	2.7%	1.1%	3.2%
	84th %'ile	1.9%	0.8%	17.6%	8.9%	12.8%	10.6%	5.7%	6.0%	3.9%	11.0%	3.2%	4.3%	2.7%	5.7%
40 years	16th %'ile	-0.3%	-1.1%	4.7%	2.6%	2.1%	3.9%	2.5%	3.6%	2.3%	3.5%	2.0%	0.9%	-0.6%	1.1%
	50th %'ile	1.2%	0.3%	10.3%	5.5%	6.8%	7.0%	4.4%	5.3%	3.6%	6.8%	3.1%	2.2%	1.3%	3.3%
	84th %'ile	3.1%	1.9%	16.1%	8.8%	11.7%	10.3%	6.5%	7.1%	5.2%	10.4%	4.4%	3.7%	3.2%	6.1%
	Volatility (Disp) (1 yr)	7%	9%	30%	15%	26%	15%	5%	6%	5%	18%	7%	3%		

D3 What financial assumptions are used when setting employer contribution rates?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	2.2%
Low-risk basis	Community admission bodies closed to new entrants	0%

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions are used when setting employer contribution rates ?
Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below

Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Admission bodies with no guarantor

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The market implied CPI assumption is derived as the difference between the yields on long dated fixed interest and index linked government bonds less 1.0% pa until 2030 and 0.1% pa thereafter.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Admission bodies with a guarantor

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the fund), the financial and demographic assumptions adopted for a cessation valuation will be derived in the same way as was used to allocate assets when the admission body joined the fund, updated for market conditions at the employer's cessation date.

Appendix E – Policy on cessations

London Borough of Harrow Pension Fund

Policy on cessations

Effective date of policy	DATE
Date approved	DATE
Next review	DATE

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
    b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

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 as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see 3.3 Exit credits below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authority	Low risk basis[1]	Shared between other fund employers
Colleges	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	A basis derived using the same methodology and parameters as was used to allocate assets to the TAB on joining the fund, updated for market conditions at point of cessation [2]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]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 (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).

- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.

iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Appendix F – Policy on contribution reviews

London Borough of Harrow Pension Fund

Policy on contribution reviews

Effective date of policy	DATE	
Date approved	DATE	
Next review	DATE	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix G – Policy on pass through

London Borough of Harrow Pension Fund

Policy on pass-through

Effective date of policy	DATE	
Date approved	DATE	
Next review	DATE	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

1.2 Background

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils and academy trusts ("the letting authority").
- The contractor's pension contribution rate is will be as set out in Section 3.2 below.
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements, augmentations and above average pay increases.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains, augmentations and/or salary experience. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass though agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contractor's pension contribution rate is set equal to the contribution rate of the letting employer as at the date the contractor is admitted to the fund. This contribution rate will remain fixed until the end of the contractor's participation in the fund.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual	✓	
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual	✓	
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual	✓	
Exchange of pension for tax free cash	✓	
Ill health retirement experience*	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package	✓	
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓

Award of additional pension or augmentation		✓

* The letting authority will only cover the cost of ill-health early retirements where these have been signed off by the letting authority's independent registered medical practitioner (IRMP). Failure to do this may expose the contractor to strain costs on ill-health early retirements.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the fund?" and the fund's policy on cessations (Appendix E to the funding strategy statement)

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Report for: Pension Board

Date of Meeting:	1 December 2022
Subject:	Pension Board Work Programme For Future Meetings
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not Applicable
Enclosures:	None

Section 1 – Summary and Recommendations

This report reviews the Pension Board's work to date, lists the forthcoming meeting dates and invites the Board to comment on a suggested work programme for the remainder of the 2022-23 Municipal Year.

Recommendations:
The Board is requested to note the dates of the meetings for 2022-23 and to comment on the proposed work programme.

Section 2 – Report

1. The Pension Board meets quarterly. This is the Board's third meeting of the 2022-23 municipal year.

2. A suggested work programme for 2022-23 is shown in the table below. Further items will be added as required.

Matter for Consideration	Board Meeting
Items for consideration at each meeting (all years)	

Pensions Administration – Performance monitoring	Quarterly report – to include updates on McCloud and Exit Cap and Scheme Advisory Board
Pension Fund Dashboard including Long term cashflow and funding	Quarterly report - Considered in review of PF Committee minutes quarterly
Latest Pension Fund Committee Meeting - Summary of Reports and actions	Quarterly report
2022-23 Items	
Annual Report and Financial Statements for year ended 31 March 2022	March 2023 – to review the external auditor's report on the accounts.
Regulatory Updates	Ad hoc – as changes occur. Two items expected are - Revised LGPS Regulations for implementing McCloud - A consultation paper about LGPS Investment (covering pooling and the "Levelling Up White Paper".
Review of Fund Policies	Continuing to Prepare for the implementation of the Good Governance Review
Triennial valuation 2022	Progress update

3. For Board members' information, dates for meetings of the Board and of the Pension Fund Committee for the remainder of 2022-23 are as follows:
    - Pension Board
        - 2 March 2023
    - Pension Fund Committee
        - 29 March 2023

Legal Implications

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

5. The terms of reference for the Board include the Board's role as set out in the following paragraphs.

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

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

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

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

   a. The effectiveness of the decision-making process
   b. The direction of the Fund and its overall objectives
   c. The level of transparency in the conduct of the Fund's activities
   d. The administration of benefits and contributions

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

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

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

Financial Implications

12. 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

13. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review is elsewhere on this agenda.

14. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

Equalities implications / Public Sector Equality Duty

15. Was an Equality Impact Assessment carried out? No

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

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 21/11/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 17/11/2022

Chief Executive: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 21/11/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone: 020 8736 6552

Background Papers: None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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