Pension Fund Committee Agenda

Date: **Wednesday 29 March 2023**

Time: **6.30 pm**

Venue: **The Auditorium - Harrow Council Hub, Kenmore Avenue, Harrow, HA3 8LU**

Membership (Quorum 3 Councillors)

Chair:	**Councillor David Ashton**
Conservative Councillor:	**Norman Stevenson**
Labour Councillors:	**Nitin Parekh (VC)** **Krishna Suresh**
Non-Voting Co-optee:	To be appointed
Trade Union Observer(s):	Vacancy – UNISON Ms P Belgrave – GMB
Independent Advisers:	Mr C Robertson Honorary Alderman R Romain

Reserve Members:

Conservative Reserve Members:	1. Kanti Rabadia 2. Amir Moshenson
Labour Reserve Members:	1. Jerry Miles 2. Natasha Proctor

Contact: Kenny Uzodike, Senior Democratic and Electoral Services Offiecr
E-mail: kenny.uzodike@harrow.gov.uk

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(3) Put mobile devices on silent.
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Agenda publication date: Tuesday 21 March 2023

Agenda - Part I

1. **Attendance by Reserve Members**
   To note the attendance at this meeting of any duly appointed Reserve Members.

2. **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.

3. **Minutes** (Pages 7 - 16)
   That the minutes of the meeting held on 23 November 2022 be taken as read and signed as a correct record.

4. **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, 24 March 2023. Questions should be sent to publicquestions@harrow.gov.uk

   No person may submit more than one question].

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

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

7. **Performance Dashboard and Update on Regular Items** (Pages 17 - 44)
   Report of the Director of Finance and Assurance

8. **Arrangements for Pension Fund Procurements in 2023** (Pages 45 - 50)
   Report of the Director of Finance and Assurance.

9. **Triennial Valuation 2022** (Pages 51 - 152)
   Report of the Director of Finance and Assurance.

10. **Responsible Investment Policy** (Pages 153 - 184)
    Report of the Director of Finance and Assurance.

11. **Competition and Markets Authority (CMA) - Setting Investment Consultant Objectives** (Pages 185 - 190)
    Report of the Director of Finance and Assurance.

12. **Any Other Urgent Business**
    Which cannot otherwise be dealt with.

13. **Exclusion of the Press 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
14.	Performance Dashboard and Update on Regular Items - Appendices 3 & 4	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).
15.	Property Investment - LaSalle Property Fund of Funds	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).
16.	Review of Investment Strategy	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).

Agenda - Part II

14. **Performance Dashboard Update on Regular Items** (Pages 191 - 202)

15. **Property Investment - Lasalle Fund of Funds** (Pages 203 - 208)
Report of the Director of Finance and Assurance.

16. **Review of Investment Strategy** (Pages 209 - 228)
Report of the Director of Finance and Assurance.

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

Data Protection Act Notice

The Council will record the meeting and will place the recording on the Council's website.

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

Pension Fund Committee

Minutes

23 November 2022

Present:

Chair:	Councillor David Ashton	
Councillors:	Nitin Parekh Norman Stevenson	Krishna Suresh
Independent Advisers:	Mr C Robertson	Independent Adviser
	Honorary Alderman R Romain	Independent Adviser
Apologies received:	Pamela Belgrave	GMB

15. Attendance by Reserve Members

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

16. Declarations of Interest

RESOLVED:

To note that Councillor Norman Stevenson, a member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

17. Minutes

That the minutes of the meeting held on 12 October 2022, be taken as read and signed as a correct record.

18. Public Questions

RESOLVED: To note that no public questions were received at the meeting.

19. Petitions

RESOLVED: To note that no petitions were received at the meeting.

20. Deputations

RESOLVED: To note that no deputations were received at the meeting.

21. Performance Dashboard and Update on Regular Items

The Committee received a report of the Director of Finance, together with appendices 1-5 of which Appendices 3 and 4 were confidential, which set out

- Draft work programme on which the Committee's comments and agreement was requested.
- the investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators
- Fund performance to 30 September 2022
- Update on Pension Board.

The following amendments were made to the report and appendices:

- On page 9 of the agenda, Paragraph 16, 5th bullet point the Investment in Blackrock Sterling Liquidity (cash) fund was amended from £50 to £5m

- Appendix 1 on page 15 of the agenda, the LCIV Longview under 12 months was amended from -7% to +3.5%.

<u>The Draft Work Programme</u>

Members commented as follows:

Members requested an update on agreement at the previous meeting that new Members would benefit from training on risk and asset management.

An officer explained that arrangements had been made for Councillors David Ashton (Chair) and Suresh (Vice-Chair) to attend training and briefings organised by the following groups:

- London Pension Fund Officers Group, Westminster Council – London wide Member training
- A briefing by the London CIV - briefing for new Councillors on how the London CIV works

After these training sessions, officers will liaise with new Members of the committee to schedule further training. A Member advised that old Members could also benefit from the London CIV training. It was agreed that invitations should be extended to old members of the committee to attend the London CIV briefing.

<u>The investment and management performance dashboard</u>

Members commented as follows:

Members asked if the timing of the decision to rebalance agreed by the committee and ensuing transactions listed in paragraph 16 of the report had been beneficial.

The representative from AON explained that recent developments in the gilt and corporate fixed income markets had made them more attractive to investors in corporate bonds and, depending on the date of the investment, the real yields had become more attractive, though they had since fallen back to levels before the mini budget. Fixed income as an asset class had become more attractive as yields had risen and so it had been a good time to invest in them.

A member asked for clarification on the fall in the value of assets and the impact of currency hedging as detailed in paragraph 14 of the report.

An officer explained that the fund hedges 50 percent of its exposure to certain non-sterling currencies. The total value of currencies hedged was about £200 million. At the end of September, due to the timing of the settlements coming right in the middle of the turmoil following the abortive mini budget from the former Chancellor, the amounts that the Council had to settle by way of collateral increased by 50 percent within a week to almost £20 million. In consultation with AON, it was agreed that money should be withdrawn from gains made from equities held in those currencies to settle the demand for increased collateral in October 2022.

A member commented that the funding level at 116% was an improvement due to the value of the liabilities falling and asked as to what further change in the funding level was anticipated.

The representative from Hymans Robertson explained that the investments were in markets which could be volatile and as a result, funding levels may go up or down and there were no guarantees. The funding levels had not changed in the last 30-40 days and had remained at 116-120 percent. Funding levels would continue to be monitored.

A member questioned if the Council's liabilities had been affected by the increased interest rate.

The representative from Hymans Robertson responded that the Bank of England's increases in short term interest rates to lower inflation had led to an increase in gilt yields which lowered the value of the fund's liabilities.

RESOLVED: That**:**

1. the performance and investment dashboard report be considered be noted.

2. the draft work programme for the remainder of 2022-23 be approved.

22. Review of Pension Fund Risk Register

Members received the report which set out the results of the review of the Pension Fund Risk Register for the committee's consideration and comments.

The following were highlighted:

- A new risk arising from the fund becoming cash negative from April as a result of the combined impacts of the reduction in employer contribution rates and the expected rise in pensions payable due to inflation.

- The emergence of other red risks as a result of the state of the economy and the impact of these risks on asset valuation.

- These risks had to be tolerated but processes had been put in place to mitigate the worst impacts and these processes were under regular review.

Members commented as follows:

A Member questioned how the Council could deal with the cashflow issues raised in paragraph six of the report on page 30 of the agenda.

An officer explained that this could be done by understanding how to raise cash within the council's investment strategy. The majority of the investments were highly liquid and had daily or weekly dealing arrangements. This made it easy to access cash from the investments if needed. Therefore, firstly, cash could be produced by selling assets.

Secondly, within the London CIV there are options around the share classes. Currently the fund was invested in accumulating share classes, so dividends and interest received were reinvested. These could be switched to distributing share classes, producing cash on a regular basis, though with this method the returns would no longer be compounded.

Thirdly, the Council has investments designed to produce regular income over time. The renewables infrastructure fund should do this.

A Member asked if officers had any idea of the quantum of the future cashflow deficit.

An officer explained that he could do a quick calculation, but Hymans Robertson had been asked to perform a forward looking scientific cashflow projection stretching into the medium term which would feed into the review of the investment strategy commenced in the first quarter of the year. The aim was to work with colleagues to develop an appropriate strategy to mitigate the risk.

An independent adviser commented that the pooling information on Risk 9 as stated, in Appendix 2, page 39 of the agenda, should be updated to reflect recent changes such as:

- the committee no longer meets the managers once a year
- the officers no longer meet the managers twice a year,
- the London CIV now monitors the managers, and
- the committee now monitors the London CIV.

The adviser said that he would forward the relevant information to the officer after the meeting.

An independent adviser suggested that if agreed by Members, he felt it would be beneficial for officers to seek the minimum number of distribution units needed regarding Risk 13 as stated in Appendix 2 on page 40 of the agenda and continue to provide the growth through holding accumulation units.

An officer responded that to his understanding the Council could opt for either distributing or non-distributing units. The best way of applying what the adviser had suggested was to make specific cash drawdowns as needed and not go into distribution units. The Chair, Councillor David Ashton cautioned about making the risk register too prescriptive.

An independent adviser questioned about the likely impact of McCloud.

An officer explained that impact of Macleod had been assessed and factored into the triennial valuation for 2022 and hence into the contribution strategy. So, the Council was already prepared for the impact. The specific impact on the LBH fund meant that inevitably some people may get additional pensions.

An independent adviser asked what action would be prudent for the Council pending such a judgement.

The representative from Hymans Robertson explained that the impact of the proposed Macleod represents about two percent of the Fund's liabilities, and this has been allowed for in the triennial valuation. The residual risk therefore has a small financial impact, but this remains an administrative nightmare.

RESOLVED: That the updated risk register be noted.

23. Taskforce on Climate-Related Financial Disclosures - Consultation

Members received the report which summarised the recently issued Government Consultation paper on Governance and Reporting of Climate Change Risks and contained a draft response.

The officer informed the committee that the consultation paper published in September 2022 sought views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Officers had in collaboration with colleagues and officers from other local authorities drafted a response attached as Appendix 1. The consultation deadline was the next day 24 November 2022 and members were requested to approve the response prior to submission.

RESOLVED: That:

1. the report be noted

2. the draft response as set out in Appendix 1 be approved for submission to DLUHC.

24. Triennial Valuation

Members received the report which provided the Committee with a draft Funding Strategy Statement (FSS) reflecting the results of the 2022 valuation and approval was requested to send this draft to stakeholders for consultation.

The draft FSS has been simplified, with key policies now being included as appendices. In particular these cover arrangements for a standard approach, for new contractors coming into the pension fund and for existing contractors leaving the fund at the end of their contracts or when they have no remaining active members. This approach will streamline administration of the pension aspects of those contracts

The new regulations enable the Council (as administering authority) to consider deferred debt arrangements for contractors leaving the Fund. This option though an additional risk, meant more flexibility around debt collection. Appropriate measures will be put in place to manage this risk, including consideration of a requirement for security to be in place for contractors with deferred debt arrangements.

After consultation, the funding strategy would be presented to the next meeting of the committee for final approval.

The Chair thanked the Hymans Robertson representative for the report.

A Member suggested that on page 13, supplemental agenda, that Responsible Investment should be mentioned in the second bullet under 1.2.

A member asked for further explanation about the contribution rate as detailed in the third paragraph of 2.3, on page 16 of the Supplemental agenda.

The Hymans representative explained that the contribution from the Council was discussed at the last meeting of the committee. It was 23.5% and the Council's budgeting practice is to split it so that part is expressed as a percentage (16%) and the other part is converted to a £ amount. This was one of the ways Section 151 managed the finances of the fund. The final £ amount was still being worked out.

A member asked for further explanation of the impact on contributions of early retirement on ill health grounds. The representative explained that early retirement due to ill health impacts through the loss of contributions and early payment of pensions with enhancement. If the numbers of ill health retirements (as a proportion of active members) was significant, this could lead to a rapid increase of the contribution rate, hence insurance had been offered as a precautionary option. The officer explained that the insurance scheme was more appropriate for the small employers in the Fund. The Council as a large employer would not be heavily affected by an occasional ill-health retirement.

Another Member asked for further explanation about pass through agreements. The representative explained that the movement of employees from the Council to a contractor also moved their pension liability to the contractor who may be advised of an increased charge for the additional risk.

RESOLVED: That:

1. the draft Funding Strategy Statement be approved.
2. the proposals for consultation with employers and other stakeholders as set out in paragraph 6 of the report be endorsed.

25. Draft Responsible Investment Policy

Members received an introduction to the report from an officer who explained that following the workshop on 12 October 2022, it was agreed that Aon would carry out a survey of the Committee members' investment beliefs (from an RI perspective) and would use these to draw up a Responsible Investment Policy for the Committee to consider and approve.

A representative from Aon presented the survey findings and the contents of the proposed policy.

She informed members that following completion of the survey by three Members of the Committee, Aon had reviewed the responses provided and produced the following summary of the key views expressed by the Committee:

- Environmental, social and governance (ESG) factors were **financially material**; taking them into account was **consistent with the Committee's fiduciary duty** to members of the Fund.

- The Fund was a **long-term investor**, and the Committee would invest in a manner that was consistent with that long-term outlook.

- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it was therefore important that the Fund's appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.

- While risk and return considerations were important, Members believed that **the fund managers' approach to engagement and stewardship of assets** was a relevant factor in decision-making.

- Members would consider investments which sought to deliver positive impacts on societal/environmental issues, as well as those which integrated ESG risk and opportunities, or 'tilted' towards certain investments.

- **Climate change is a key risk factor** to the Fund. This risk should be assessed and understood in order to protect the Fund and capture opportunities arising as a result of the transition over time to a low-carbon economy. However, you also believe that issues of social justice and broader consideration of nature-related outcomes are relevant to decision-making.

- Acting as responsible stewards of capital is important, and the Committee believed in the **value of engagement**. To that end, the Committee expects that the Fund's voting rights are exercised to the fullest extent possible, and that the Fund's managers will actively engage with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.

The policy outlined important procedures to follow in committee decision making, ESG risk monitoring and assessment, expectations and monitoring of investment managers, implementation, and training to ensure the investment strategy is aligned with the council's beliefs and principles toward RI.

The policy also covered these areas:

- Stewardship – voting and engagement
- Initiatives and industry collaboration
- Evolving the approach
- Disclosure and reporting

Councillor David Ashton, the Chair of the committee expressed confusion and concern at the number of survey responses received. As Members confirmed that they had all responded to the survey and since it was anonymous, there was no way of finding out what had happened.

He further explained that due to the low level of response, the survey results though informative were statistically challenging as it was difficult to draw a clear conclusion from a small sample size.

An Advisor expressed concern that some sections of the draft policy were easy to understand and implement such as the section on stewardship on page 62, of the Supplemental Agenda but the section on Environmental and Social Governance (ESG) was confusing. He expressed a preference for a brief, clear, simple, and understandable policy.

It was proposed that a Word version of the policy be circulated to Members for their input and presented back to the committee for further comments.

The Chair explained that the committee was not rejecting the draft policy but rather commencing a sensible process of input.

RESOLVED: That:

1. the draft Responsible Investment Policy (RI) be noted.

2. a Word version of the draft policy be circulated to Members for comments.

3. the amended copy of the draft policy be presented to the committee for further consideration.

26. Any Other Urgent Business

There was none.

27. Exclusion of the Press Public

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

Item	Title	Reason
28.	Performance Dashboard and Update on Regular Items - Appendices	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
29.	LaSalle Property of Funds	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including

the authority holding that information).

28. Performance Dashboard and Update on Regular items

Members received confidential Appendix 3 from Aon and confidential Appendix 4 from an Independent Adviser. These appendices set out views on the fund's investment managers and a ratings summary. They included performance information that had been obtained from the London CIV or directly from the managers themselves rather than from PIRC.

RESOLVED: That the information in the confidential appendix be noted.

29. LaSalle Property Fund of Funds

The Committee received a verbal update regarding the Fund's property investment in the La Salle Fund of Funds.

Members discussed the update and additional analysis from Aon.

RESOLVED: That the verbal update be noted.

(Note: The meeting, having commenced at 6.30pm, closed at 8.38pm)

(Signed) Councillor David Ashton
Chair

Report for:	**Pension Fund Committee**
Date of Meeting:	29 March 2023
Subject:	Performance Dashboard and Update on Regular Items
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	Appendices 3 and 4 which are 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:	None
Enclosures:	**Appendix 1:** Investment Dashboard as at 31 December 2022 (Aon) **Appendix 2:** PIRC Local Authority Pension Performance Indicators to 31 December 2022 **Appendix 3**: Manager Monitoring Report - Executive Summary (Aon) **(Exempt)** **Appendix 4**: Report from Independent Advisor **(Exempt)** **Appendix 5**: Fund Valuation as at 31 January 2023

Section 1 – Summary and Recommendations

This report updates the Committee on regular items as follows:

- Draft work programme for 2023-24 on which the Committee's comments and agreement are requested.
- It includes the investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators
- Fund performance to 31 December 2022 and 31 January 2023
- Updates on Pension Board and Audit of Annual report and Accounts for 2021-22

Recommendations:

The Committee is requested to:

1. Review and to comment as necessary on the performance and investment dashboard report

2. Approve the draft work programme for 2023-24.

Section 2 – Report

A. Introduction

1. This report updates the Committee on regular items as follows:

   - Draft work programme for 2023-24 (Sub-section B)
   - Investment and Manager Performance Dashboard (Sub-section C) and Appendix 1-4
   - Fund Performance and actions for periods ended 31 December 2022 (Sub-section D and Appendix 5)
   - Issues raised by Pension Board (Sub-section E)
   - Audit of 2021-22 Annual Report and Accounts (Sub-section F)
   - Other matters

B Draft Work Programme 2023-24

2. The dates set for future meetings of the Committee in the 2023-24 municipal year had not been set at the time of writing this report. They are expected to be agreed by the Cabinet on 16th March 2023. Officers will update the Committee accordingly at the meeting.

3. An outline work programme has been drafted – the following items are currently expected to be reported to the Committee's quarterly meetings:

Meeting	Item
All Meetings	Regular Items update - Work Programme - Pension Board Items - Performance - Fund valuation / Dashboard - Manager Monitoring
June 2023	Outcome of Audit of Accounts for 2021-22
	External Audit Plan for 2022-23
	Review of Governance Compliance Statement
	Review of Pension Fund Risk Register
	Investment Strategy Review
September 2023	Draft PF Annual report 2022-23
	Review of Internal Controls at Investment Managers
	LCIV and Investment Pooling Update
	Actuarial Services Contract – outcome of tender process
	Investment Strategy Review
December 2023	External Audit Report on 2022-23 Accounts
	Review of Pension Fund Risk Register
	Investment Consultancy Services Contract – outcome of tender process
	Investment Strategy Review
March 2024	Investment Strategy Review
	LCIV and Investment Pooling Update
	Climate Change Reporting Update

4. All meetings are currently scheduled to start at 6.30pm. It is intended that a training session will be held before each meeting, beginning at 5.30pm. Detailed arrangements for the training sessions and meetings will be confirmed nearer the date.

5. The Committee will have the opportunity to update this programme but are invited to comment on the draft above and agree it at this stage. The list will be augmented as necessary during the year.

6. In addition to the “regular” quarterly meetings, the Committee may wish to schedule other (informal) sessions for specific reasons – e.g. in 2022 the Committee has had sessions covering Responsible Investment and to identify a replacement Emerging Markets Equity Manager. The paper on the Investment Strategy Review elsewhere on this agenda suggests a detailed session to draw out the Committee’s preferences for developing the strategy ahead of the June Committee meeting. The Committee may

also wish to consider whether it wishes to have a “manager review day” this year.

C Summary Performance Dashboard for Period Ended 31 December 2022

7. Attached as **Appendix 1** is a summary investment performance dashboard produced by Aon. It is designed to provide summary reporting and to streamline the performance reports presented to committee.

8. The investment dashboard shows the Pension Fund’s estimated Investment Funding Level of 112% as at 31 December 2022 and the fund assets (£927m) and liabilities (£825m). This estimate of liabilities is a rolled forward projection based on the 2022 actuarial valuation, the initial results of which were reported to the Committee at its last meeting.

9. 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 what has been a volatile period in financial markets and their values 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.

10. It should be noted also that the 112% 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. No de-risking actions are recommended at the current time.

11. The 2022 Triennial valuation is almost completed – the Actuary will report elsewhere on the agenda on the final position, and his report will be issued by 31 March 2023.

12. The Dashboard includes a summary of asset allocation relative to the strategic benchmark. It also shows the current allocation made to the London CIV or under fee arrangements negotiated by the CIV (77.8%) and a summary of manager performance and manager rating. The Strategic Benchmark allocation to assets pooled or counted as being pooled is 82.5%. The commitments which are yet to be drawn down in respect of the LCIV Infrastructure and LCIV Renewables Infrastructure Funds account for most of the gap.

13. The Fund subscribes to the performance data service provided by Pension and Investment Consultants Limited (PIRC) The PIRC performance report is attached as **Appendix 2** to this report. The dashboard summarises the quarter, 1-year, 3-year and 5-year performance. The Fund outperformed its benchmark in the last quarter of 2022, but for all longer timeframes performance was below the fund benchmark. This is in part due to the poor

performance of the two equity managers which the Fund has replaced in the period since March 2021.

14. The second part of **Appendix 2** (also provided by PIRC) shows a summary of the performance of LGPS funds generally. This is taken from PIRC's database of 63 LGPS funds. Whilst the data is helpful as background information, the Committee should bear in mind that each LGPS Fund has its own investment strategy reflecting its own circumstances (funding position, membership profile, maturity, cash flow etc) – and hence asset allocations will differ significantly. For example, some funds will have had higher allocations to growth assets than LBH, others more cautious strategies.

15. **Appendix 3** Manager Monitoring Report - Executive Summary reports on managers who have received the Aon "qualified" or "in review" rating. This is summarised on the dashboard 'Manager in Focus' section. **Appendix 4** sets out the comments of one of the Fund's Independent Advisors in respect of the various managers' performance and other related information. **These appendices (3 and 4) are exempt, so any discussion of the detail therein will need to be undertaken in Part II of the meeting.**

D Fund Performance and Valuation for Period Ended 31 December 2022 and subsequent activity

16. **Appendix 5** sets out the change in the market value of the Fund's investments from 31st March 2022 to 31st January 2023. The table has been ordered to align the various investments with the three high-level "bucket" groupings approved under the Investment Strategy Review – Equities, Diversifying Return Assets and Risk Control Assets. The value of the Fund at 31st December 2022 rose to £927m in the quarter from £899m (at 30th September 2022).

17. After three negative quarters, values of both equities and bonds increased during the quarter. The value of sterling also rose following the challenges at the end of the previous quarter – this impacted on the value of those stocks denominated in other currencies, with the Fund's currency hedging mandate partially mitigating that impact. Property values fell significantly during the quarter

18. In accordance with the decision of the Committee at its October meeting, and on advice from Aon, some rebalancing was carried out as follows

    - Withdrew £15m from LCIV Global equity Focus Fund
    - Withdrew £15m from Blackrock passive equity
    - Invest £12m in Blackrock Sterling Corporate Bonds
    - Invest £12m in Blackrock Passive Index Linked Gilts
    - Invest £5m in Blackrock Sterling Liquidity (cash) fund
    - Retain £1m in Nat West for cash flow purposes.

    These transactions were completed during November 2022 and have resulted in the Fund being closer to its strategic benchmark allocations.

19. During the quarter there were several drawdowns against the Fund's commitments to the LCIV Infrastructure Fund (£5.5m approx.) and the LCIV Renewables Infrastructure Fund (£0.4m approx.). Two further drawdowns totalling £1.1m for the LCIV Renewables Infrastructure Fund were paid in January and February 2023. That fund is has now drawn down 33.1% of commitments, and the LCIV Infrastructure Fund has drawn down 66.5% of commitments. Further drawdowns are expected shortly. As previously approved by the Committee, these drawdowns are being mainly funded by withdrawals from the Insight DGF, with the remainder from cash balances.

20. During January 2023, markets generally moved upwards, resulting in an increase in the value of the Fund's investments to £958.1m. Whilst the at the time of writing this report details of the valuation at 28 February 2023 had yet to be received from some managers, those received so far indicate a small reduction in the total asset valuation from the January position. The February asset valuation will be circulated as late material.

21. LaSalle Property Fund – a report on this matter is included elsewhere on the agenda for this meeting and will be considered in Part 2 of the meeting.

E Meetings of Pension Board

22. At each meeting, the Board considers reports on
    - Pensions Administration Performance, which include legislation updates and the work of the Scheme Advisory Board,
    - Matters considered by this Committee,
    - Its future work programme.

23. In addition, at its meeting on 1 December 2022 the Board considered reports on the following subjects
    - The 2022 Triennial Valuation
    - Review of the Pension Fund Risk Register

24. The Board's final meeting of the Year was on 2 March 2023. At that meeting it considered the following items
    - Draft Responsible Investment Policy – the Board's comments are included in the report elsewhere on this agenda
    - Triennial valuation (including a presentation from the Actuary) – the Board's comments on the draft Funding Strategy Statement are again included in the report elsewhere on this agenda.
    - London CIV and Investment Pooling

25. The dates of the Board's meetings in 2023-24 were still to be confirmed at the time of writing this report.

F Annual Report and Accounts 2021-22 – Update on Progress of Audit

26. At its October meeting the Committee reviewed the Fund's draft Annual Report and Accounts for 2021-22. The audit of these is being carried out by Mazars. This audit is largely complete – there have been no material changes to the draft accounts presented to the Committee in October 2022, and only a small number of presentational and disclosure changes to some

of the Notes to the accounts. However, the audit cannot be completed until the audit of the Council's own accounts is finalised – the reason for this is that until that happens the auditor is required to confirm that the Pension Fund Annual Report and Accounts align with the Council's main accounts, and there are some technical issues being worked through in respect of the latter. Other LGPS funds and administering authorities are experiencing similar issues. The auditors will be reporting to the next meeting of the Governance, Audit, Risk Management and Standards Committee in April 2023.

27. The auditors, Mazars, are aware that this Committee wishes them to present their report on the outcome of the audit – this is scheduled for the Committee's next meeting.

G Other Matters – Government Consultations affecting the LGPS

28. In February 2023, a small consultation on changing the dates for "indexation" of CARE benefits was published – the intention of this is to simplify the position for active and deferred members because of the impact of uprating on the annual allowance and tax positions which would be unusually high this year and occur because the tax year and indexation dates currently are not aligned. Initial impressions, confirmed by analysis by Hymans Robertson, indicate that the proposals would have the intended impact. However, the short timescale for implementation is likely to provide some technical challenges for software providers. A link to the Consultation is below.
Annual revaluation date change in the Local Government Pension Scheme (LGPS) - GOV.UK (www.gov.uk)

29. A Government consultation on the McCloud remedy for public sector pension schemes was published in December 2022. This closed on 10 February 2023, the response by the Government is awaited and Regulations are expected to be laid in "Spring 2023". There will need to be specific LGPS Regulations for the implementation of the remedy. covering this. A link to the Consultation is below.
https://www.gov.uk/government/consultations/draft-regulations-for-the-mccloud-remedy/consultation-on-draft-regulations-for-the-mccloud-remedy#executive-summary

30. On 30 January 2023 the Government published a Consultation on proposed changes to arrangements for cost sharing (between scheme members and employers). The Consultation closes on the 24 March 2023. The cost management process is overseen by the Scheme Advisory Board. The changes being considered are intended to align the mechanisms with those for other public sector schemes. A link to the consultation is below.
https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process

31. The Regulations implementing the increase in annual pension benefits for the LGPS were still awaited at the time of writing this report. However, the

expectation remains that an increase of 10.1%, in line with the annual CPI increase to September 2022 will be formally approved.

32. Previously we had expected a major consultation for the LGPS – covering a range of topics including investment pooling, investment in "levelling up" and infrastructure, the good governance review as well as the McCloud remedy and cost sharing. Apart from the specific items above, the major consultation is still awaited. However, in HM Treasury's Budget "red book" published on 15 March 2023, the following statement was included

    "4.116 Local Government Pension Scheme investment – The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets – a forthcoming consultation will propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver and the government stands ready to take further action if needed. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets."

33. A report will be brought to the Committee when the consultation is published.

Legal Implications

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

35. The Pension Fund Committee has the following powers and duties:

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

    ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

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

    iv. to establish a strategy for the disposition of the pension investment portfolio; and

    v. to appoint and determine the investment managers' delegation of powers of management of the fund;

    vi. to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations

1997 (as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

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

Financial Implications

36. 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

37. Risks included on corporate or directorate risk register? **No**
Separate risk register in place? **Yes**

38. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review was carried out at the Committee's meeting on 23rd November 2022.

39. 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

40. Was an Equality Impact Assessment carried out? No
There are no direct equalities implications arising from this report.

Council Priorities

41. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 14/03/2023

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 08/03/2023

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 14/03/2023

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

Investment Dashboard

Q4 2022

Prepared for:	London Borough of Harrow Pension Fund
Prepared by:	Aon
Date:	16 March 2023

Signatory of: UK STEWARDSHIP CODE | 2021

For professional clients only

AON

Dashboard summary

Funding

112.5%

Source: Hymans Robertson Qtr ▼ 3.4%

Assets

£928m

Qtr ▲ £17m

Liabilities

£825m

Qtr ▲ £39m

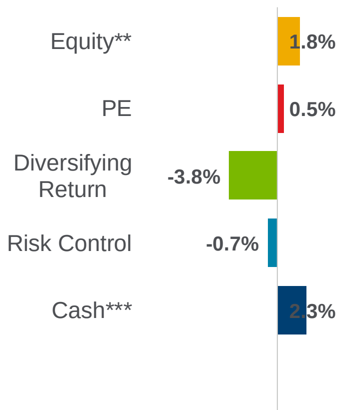
Yields

	28 Feb	3yr Market Pricing	5yr Market Pricing
Nominal	4.3%	▲ 4.3%	▲ 4.3%
Real	0.6%	▲ 0.8%	▲ 0.9%
Inflation	3.6%	▼ 3.5%	▼ 3.4%

Source: Aon

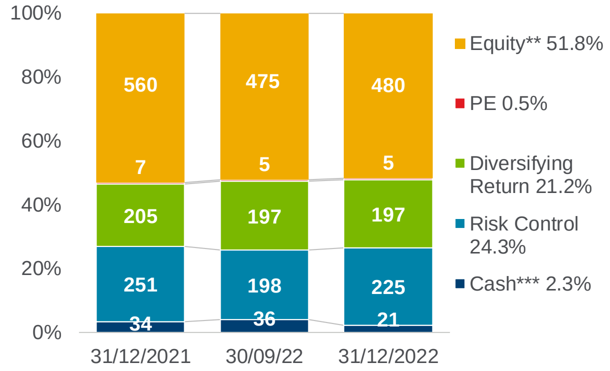
Asset Allocation

Relative to strategic

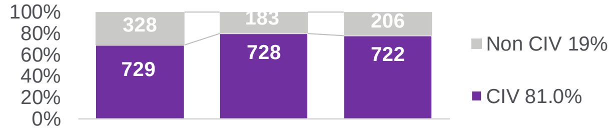


Source: London Borough of Harrow Pension Fund Officers

Absolute

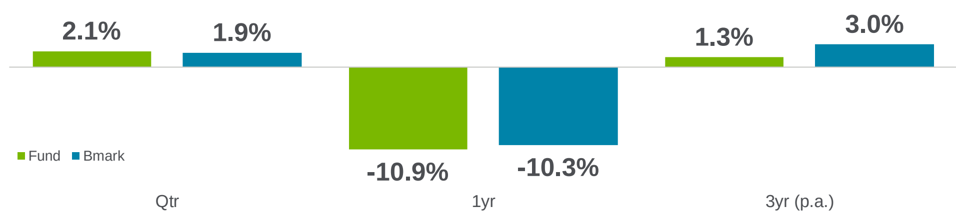


London CIV

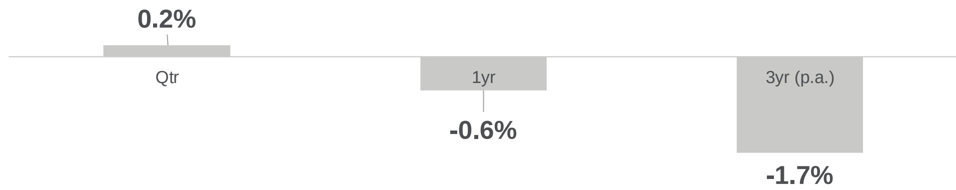


Performance

Absolute



Relative



Fund and Benchmark Performance Source: PIRC

Managers in Focus

Buy

LCIV BlackRock Equities
LCIV Equity Focus Fund (Longview)
LCIV Sustainable Global Equity (RBC)****
LCIV Global Bond Fund
BlackRock Corporate Bonds
BlackRock Index-Linked Gilts

Qualified

Insight - Broad Opportunities Fund
LaSalle UK Property

Sell

Source: Aon
Note: The underlying funds for the LCIV Emerging Market Equity Fund, the LCIV Infrastructure and Renewables Funds, the LCIV Global Bond funds and the LCIV Alternative Credit Fund, are currently Not Rated by Aon.

* Due to volatility in the market, Aon have not produced their view for this quarter
**includes passive currency hedge
***cash as at 30/09/2022 has been adjusted for the £12m cash in transit at end of quarter
****We have labelled as "Buy" as we rate the team, philosophy, process and risk framework that RBC adopt although the specific fund utilised by the CIV differ slightly to the mainstream product.

Manager performance dashboard

Quarterly

Manager	Fund	Benchmark	Relative
LCIV BlackRock Passive	0.6	0.6	0.0
LCIV Longview	5.4	1.9	3.4
LCIV Emerging Market Equity Fund	2.3	1.8	0.5
LCIV RBC	-0.5	1.9	-2.4
Blackrock FI	0.3	0.6	-0.3
Insight	0.9	1.8	-0.9
Pantheon*	-0.6	1.9	-2.5
LaSalle	-12.7	-14.1	1.6
LCIV Bonds	2.4	2.4	0.0
LCIV Alternative Credit	2.7	1.8	0.9
LCIV Renewable Infra	4.7	1.8	2.8
LCIV Infra	2.9	1.8	1.1

12 months

Manager	Fund	Benchmark	Relative
LCIV BlackRock Passive	-10.0	-10.3	0.3
LCIV Longview	2.2	-7.8	10.8
LCIV Emerging Market Equity Fund			
LCIV RBC	-15.7	-7.8	-8.5
Blackrock FI	-34.2	-34.0	-0.3
Insight	-9.2	5.9	-14.2
Pantheon*	-11.2	-7.8	-3.7
LaSalle	-9.2	-10.1	1.0
LCIV Bonds	-16.1	-15.4	-0.9
LCIV Alternative Credit			
LCIV Renewable Infra			
LCIV Infra			

Fund and Benchmark Performance Source: PIRC
Relative performance calculated by Aon using an arithmetic methodology
*Pantheon performance uses the previous quarter value adjusted for cash flow in the month

Disclaimer:
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Aon plc (NYSE:AON) exists to shape decisions for the better - to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries and sovereignties with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

APPENDIX 2A

Harrow Pension Fund

Quarterly Performance Summary

Periods to end December 2022

Performance Overview

Fund Performance

	Quarter	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Fund	**2.1**	**-10.9**	**1.3**	**2.7**
Benchmark	1.9	-10.3	3.0	4.4
Relative	0.2	-0.6	-1.7	-1.6

Manager Performance

	Latest Quarter			1 Year			3 Years (% p.a.)		
	Portfolio	BM	*Relative*	Portfolio	BM	*Relative*	Portfolio	BM	*Relative*
Longview	**5.4**	1.9	3.4	**2.2**	-7.8	10.8	**7.3**	8.4	-1.0
Passive Equity	**0.6**	0.6	0.0	**-10.0**	-10.3	0.3	**6.8**	6.5	0.3
RBC	**-0.5**	1.9	-2.4	**-15.7**	-7.8	-8.5			
LCIV Emerging Mkts	**2.3**	1.8	0.5						
Pantheon*	**-0.6**	1.9	-2.5	**-11.2**	-7.8	-3.7	**11.5**	7.8	3.4
LaSalle	**-12.7**	-14.1	1.6	**-9.2**	-10.1	1.0	**-0.3**	1.3	-1.6
BlackRock	**0.3**	0.6	-0.3	**-34.2**	-34.0	-0.3	**-9.2**	-9.7	0.5
LCIV Bonds	**2.4**	2.4	0.0	**-16.1**	-15.4	-0.9			
Alternative Credit	**2.7**	1.8	0.9						
Insight	**0.9**	1.8	-0.9	**-9.2**	5.9	-14.2	**-0.8**	4.7	-5.3
Renewable Infra	**4.7**	1.8	2.8						
Infrastructure	**2.9**	1.8	1.1						

*The Pantheon performance uses the previous quarter value adjusted for cash flows in the month. As a long term investment the longer term results are the key indicators for this portfolio.

PIRC

Asset Allocation

	Start Quarter GBP'000s	Start Quarter %	End Quarter GBP'000s	End Quarter %	% Strategic Allocation
Equity	**474,540**	**53**	**480,143**	**52**	**50**
Longview	117,181	13	105,742	11	**10**
BlackRock	242,976	27	226,691	24	**24**
LCIV Emerging	69,923	8	71,497	8	**8**
RBC	67,920	8	67,564	7	**8**
Record Currency	-23,461	-3	8,649	1	
ersifying Assets	**202,179**	**22**	**201,210**	**22**	**25**
Insight	65,927	7	66,407	7	**5.5**
LaSalle	70,087	8	60,780	7	**6**
Renewable Infrastructure	17,984	2	19,237	2	**5**
Infrastructure	43,304	5	50,091	5	**7.5**
Pantheon	4,877	1	4,695	1	**1**
Risk Control Assets	**198,337**	**22**	**225,021**	**24**	**25**
BlackRock	63,060	7	86,205	9	**10**
LCIV Bonds	41,325	5	42,316	5	**5**
LCIV Alternative Credit	93,952	10	96,500	10	**10**
Cash	**23,676**	**3**	**21,156**	**2**	**0**
Total Fund	**898,732**	**100**	**927,530**	**100**	**100**

PIRC

Latest Year Performance

% p.a.	Portfolio	Benchmark	Relative	Manager Contribution
Equity				
Longview	**2.2**	**-7.8**	**10.8**	**0.6**
BlackRock	**-10.0**	**-10.3**	**0.3**	**-0.1**
RBC	**-15.7**	**-7.8**	**-8.5**	**-0.5**
LCIV EM				
Diversifying Assets				
Insight	**-9.2**	**5.9**	**-14.2**	**-0.8**
LaSalle	**-9.2**	**-10.1**	**1.0**	**0.0**
Renewable Infrastructure				
Infrastructure				
Pantheon	**-11.2**	**-7.8**	**-3.7**	**0.0**
Risk Control Assets				
BlackRock	**-34.2**	**-34.0**	**-0.3**	**0.0**
LCIV Bonds	**-16.1**	**-15.4**	**-0.9**	**0.0**
LCIV Alternative Credit				
Total Fund	**-10.9**	**-10.3**	**-0.6**	

Manager contribution is the impact of each portfolio on the overall Fund relative performance.
Only portfolios invested for the full period are shown in these tables.

All portfolios, including newly invested and legacy, will impact the overall performance.

Last 3 Year Performance

% p.a.	Portfolio	Benchmark	Relative	Manager Contribution
Equity				
Longview	**7.3**	**8.4**	**-1.0**	**-0.1**
BlackRock	**6.8**	**6.5**	**0.3**	**0.0**
RBC				
LCIV EM				
ersifying Assets				
Insight	**-0.8**	**4.7**	**-5.3**	**-0.3**
LaSalle	**-0.3**	**1.3**	**-1.6**	**-0.2**
Renewable Infrastructure				
Infrastructure				
Pantheon	**11.5**	**7.8**	**3.4**	**0.0**
Risk Control Assets				
BlackRock	**-9.2**	**-9.7**	**0.5**	**0.1**
LCIV Bonds				
LCIV Alternative Credit				
Total Fund	**1.3**	**3.0**	**-1.7**	

Manager contribution is the impact of each portfolio on the overallFund relative performance.
Only portfolios invested for the full period are shown in these tables.

All portfolios, including newly invested and legacy, will impact the overall performance.

PIRC

Last 5 Year Performance

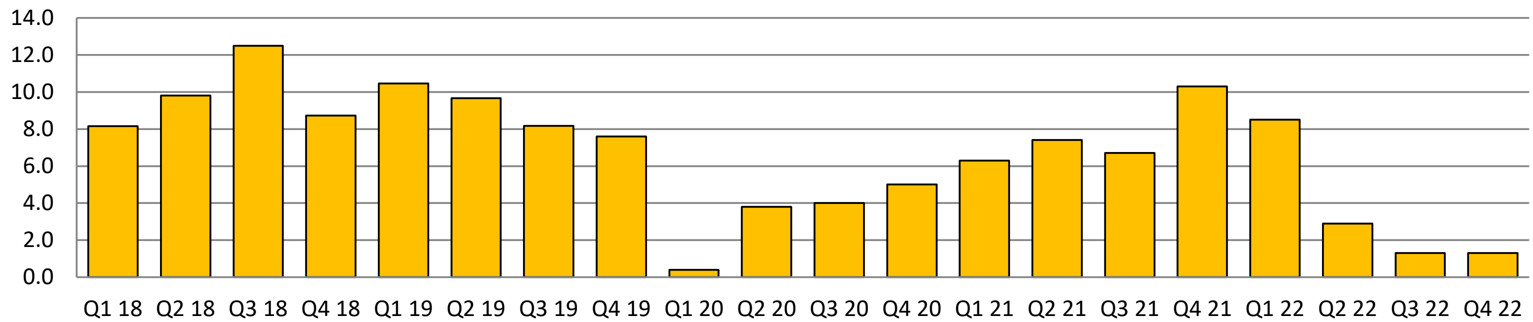
% p.a.	Portfolio	Benchmark	Relative	Manager Contribution
Equity				
Longview	**9.2**	**8.7**	**0.5**	**0.0**
BlackRock	**7.4**	**7.2**	**0.2**	**0.0**
RBC				
LCIV EM				
Diversifying Assets				
Insight	**1.0**	**4.6**	**-3.4**	**-0.2**
LaSalle	**0.7**	**2.4**	**-1.7**	**-0.2**
Renewable Infrastructure				
Infrastructure				
Pantheon	**8.2**	**8.2**	**0.0**	**0.0**
Risk Control Assets				
BlackRock	**-3.6**	**-4.0**	**0.4**	**0.1**
LCIV Bonds				
LCIV Alternative Credit				
Total Fund	**2.7**	**4.4**	**-1.6**	

Manager contribution is the impact of each portfolio on the overallFund relative performance.
Only portfolios invested for the full period are shown in these tables.
All portfolios, including newly invested and legacy, will impact the overall performance.

PIRC

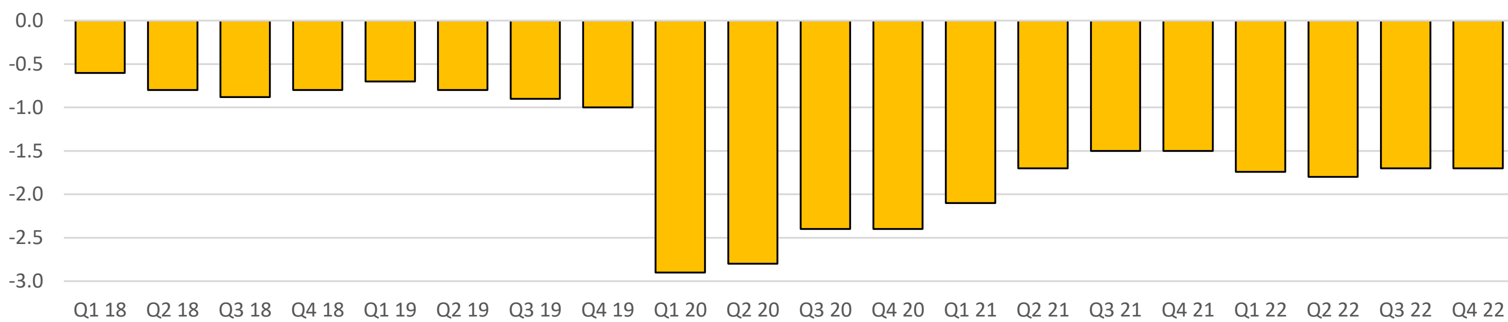
Rolling Three Year Returns

Rolling Three Year Returns (%p.a.)



Fund has produced a positive return over all three year periods.
These returns are now well below current level of inflation.

Rolling Three Year Relative Returns (% p.a.)



The 3 year relative return has been below benchmark since the start of 2018.

PIRC

Performance Relative to Others

Fund Performance

	Quarter	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Fund	**2.1**	**-10.9**	**1.3**	**2.7**
Benchmark	**1.8**	**-10.3**	**3.0**	**4.4**
Universe Average	**1.0**	**-6.1**	**4.3**	**4.8**
Fund Relative to Universe	1.0	-5.1	-2.9	-2.0
Fund Relative to Benchmark	0.6	-1.0	-1.7	-1.6
BM Relative to Universe	0.8	-4.5	-1.2	-0.4

Benchmark Allocation

%	To 31/12/2017	From 1/1/2018	From 1/4/2019	From 1/7/2021
Equity	**62**	**50**	**50**	**50**
Global Passive	31	24	24	24
Developed Active	21	18	18	18
Emerging Markets Active	10	8	8	8
Risk Control	**13**	**13**	**24**	**25**
UK Corporate Bonds	10.4	10	10	5
Credit			11	10
Index Linked Gilts	2.6	3	3	5
Global Bonds				5
Diversifying Assets	**25**	**37**	**26**	**25**
Diversified Growth	10	22	6.5	5.5
Renewables				5
Infrastructure			7.5	7.5
Property	10	10	10	6
Private Equity	5	5	2	1

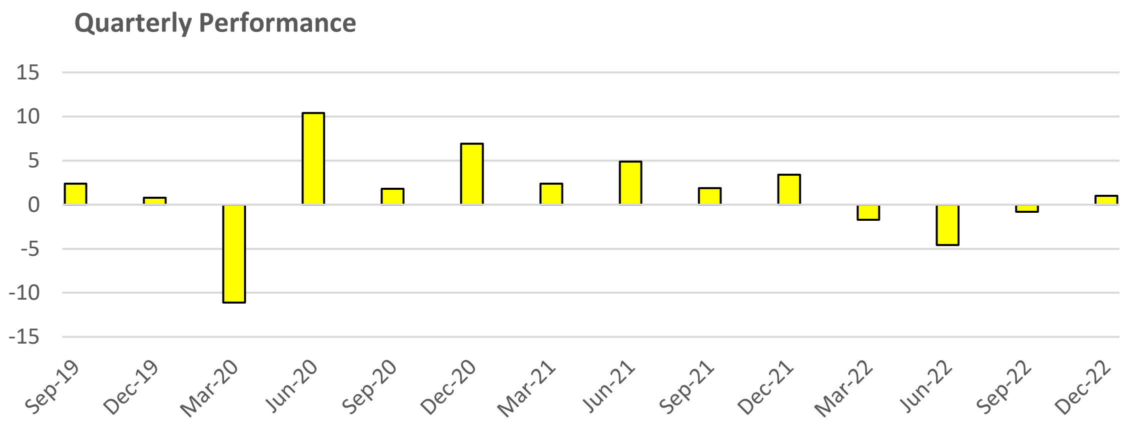
Local Authority Pension Performance Initial Indicators to December 2022

Latest Quarter

After three successive quarters of negative returns the latest period delivered a small positive result for many funds. However, with annual CPI at 10.5% at the end of the year, significant challenges remain.

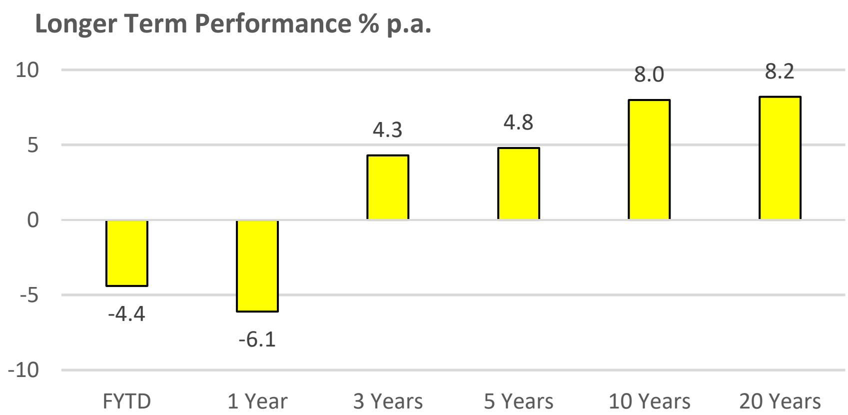
While equity markets recouped some of their recent losses, this benefit was reduced by the strengthening of Sterling over the period. The energy sector performed strongest which meant that greener equity strategies underperformed broad markets. Bonds, with the exception of inflation linked, delivered small positive results. Property values fell steeply with the IPD index returning -14% for the quarter.

The average local authority fund could expect to achieve a return for the Quarter of around 1.0%.



Longer Term

The one-year result is now -6.1%, the small positive in the latest period being insufficient to offset the prior three quarters of negative performance. Over the medium-term, performance is now below 5% p.a.
Over the last ten years the average fund delivered a return of 8% p.a.



The returns for the latest period are based on the asset allocation of the PIRC Local Authority Universe with index returns applied. The previous periods are updated to include actual Universe returns.

The PIRC Local Authority Universe is currently comprised of 63 funds with a combined value of £250bn.

For further details or for information about subscribing to this service please contact:

Karen Thrumble

Head of Local Authority Pension Performance Analytics

Karen.Thrumble@pirc.co.uk

Tim Bush

Consultant - Local Authority Pension Performance Analytics

Timb@pirc.co.uk

APPENDIX 5

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	Value 31.10.2022 £'000	Value 30.11.2022 £'000	Value 31.12.2022 £'000	Value 31.01.2023 £'000	Allocation 31.01.2023 %	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	121,923	110,130	105,742	110,897	12	10	
LCIV - Blackrock Passive	269,113	260,570	255,224	241,501	257,001	261,414	242,976	243,311	231,630	226,691	234,134	24	24	
LCIV - Sustainable Equity Fund	73,314	68,921	68,967	66,897	71,786	71,767	67,920	68,672	71,638	67,564	69,645	7	8	
LCIV - Emerging Market Equity Fund	0	2,073	33,476	62,393	71,203	74,269	69,923	65,131	72,475	71,497	75,551	8	8	
GMO	71,839	69,436	37,436	6,856	0	0	0	0	0	0	0	0	0	
Record passive currency hedge	-4,041	-9,303	-8,929	-15,936	-7,141	-15,857	-23,461	3,150	8,086	8,649	12,575	1		
Total Global Equities	537,719	516,484	512,033	482,993	523,370	521,587	474,540	502,187	493,960	480,143	502,801	**52**	**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	66,056	67,082	66,407	67,528	7	5.5	
Property - LaSalle	71,330	71,619	71,935	73,515	73,380	72,986	70,087	68,417	66,851	60,780	60,213	6	6	
Renewables - LCIV Renewables Fund	13,833	11,210	12,111	12,111	12,253	13,014	17,984	17,984	17,984	19,237	19,505	2	5	
Infrastructure - LCIV Infrastructure	31,347	31,347	31,347	34,846	34,846	41,472	43,304	47,560	48,055	50,091	50,091	5	7.5	
Private Equity - Pantheon	5,371	5,371	5,371	5,218	5,218	5,218	4,877	4,877	4,877	4,695	4,695	0	1	
Total Diversifying Return Assets	215,658	211,619	207,284	208,995	207,101	210,775	202,178	204,894	204,848	201,210	202,032	**21**	**25**	**20-30**
Risk Control Assets														
Bonds - Blackrock - FI Corp	42,083	39,930	38,869	35,997	37,659	34,279	29,817	31,517	46,610	44,246	46,410	5	5	
Bonds - Blackrock - IL passive LCIV	46,463	43,079	39,265	37,178	39,413	36,064	33,243	31,405	44,724	41,959	43,658	5	5	
Alternatives - LCIV Alt Credit Fund	103,777	102,592	100,124	95,414	96,924	97,823	93,952	94,199	96,243	96,500	100,222	10	10	
Bonds - LCIV Global Bond Fund	46,816	44,695	44,739	43,243	44,409	43,358	41,325	40,653	42,679	42,316	43,472	5	5	
Total Risk Control Assets	239,138	230,296	222,996	211,832	218,406	211,524	198,338	197,774	230,257	225,021	233,763	**25**	**25**	**20-30**
Cash & NCA														
Cash Managers (Blackrock)	10,736	10,740	10,746	7,755	7,765	7,773	7,784	5,796	10,807	10,822	10,851			
Cash NatWest	7,288	9,319	12,214	9,914	10,095	5,252	13,091	9,098	8,760	7,464	5,750			
Cash Custodian (JP Morgan)	5,977	3,382	3,381	3,380	280	280	279	49	49	48	28			
Blackrock Dividends (Pending Reinvestment)	291	291	578	578	579	865	868	868	868	1,317	1,195			
Debtors and Creditors	1,054	1,368	-1,414	3,261	1,058	1,401	1,529	1,285	1,187	2,250	1,551			
CIV Investment	150	150	150	150	150	150	150	150	150	150	150			
Total Net Current Assets	25,496	25,251	25,656	25,039	19,928	15,721	23,701	17,246	21,820	22,050	19,525	2	0	
Total Assets	1,018,011	983,650	967,969	928,858	968,805	959,607	898,757	922,102	950,884	928,425	958,121	100	100	
Assets Pooled														
- LCIV Funds	39.0%	39.2%	43.0%	47.0%	47.7%	49.2%	50.2%	49.5%	48.3%	48.8%	49.0%		53.5%	
- Other (Passive) Funds - Regarded as Pooled	31.0%	30.9%	30.4%	30.0%	30.6%	31.0%	30.7%	29.8%	29.1%	28.9%	29.0%		29.0%	
Total % Pooled	70.0%	70.1%	73.5%	77.0%	78.3%	80.2%	81.0%	79.3%	77.4%	77.7%	78.0%		82.5%	

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Harrow COUNCIL LONDON

Report for:	**Pension Fund Committee**
Date of Meeting:	29 March 2023
Subject:	Arrangements for Pension Fund Procurements in 2023
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	**Not applicable**
Enclosures:	None

Section 1 – Summary and Recommendations

This report summarises the arrangements for the procurements of the contracts for Actuarial Services and Investment Consultancy Advice as the current contracts will expire during the 2023-24 financial year.

Recommendations:

The Committee is requested to:

1. Note the report.

2. Approve the proposed arrangements for procurement of new contracts for Actuarial Services and for Investment Consultancy Advice using the National LGPS Frameworks as set out in paragraphs 13 and 18 below.

Section 2 – Report

1. To carry out its statutory role effectively, the LBH Pension Fund needs to have in place a number of contracts for the provision of specialist services. Two of the most important of these are Actuarial Services and Investment Consultancy Services. The existing contracts for these

services will both expire during the 2023-24 financial year. The following paragraphs summarise the planned approach to ensuring that new contracts are put in place.

2. In each case, it is appropriate to have a contract which runs for a significant period to provide value for money, continuity of service and importantly to ensure that re-procurement is not a distraction for either the Fund's officers or for the service provider at critical points – see paragraphs 8 to 10 below.

3. As a result, in each case the estimated total value of the contracts (taking account of any flexibility to extend the contracts) is such that, to comply with the Council's procurement requirements, the process will require authority from Cabinet. It is intended that this will be sought from the Cabinet's May meeting.

4. The national LGPS Frameworks (led by Norfolk CC) have developed a range of framework contracts to aid procurement of services common to all LGPS administering authorities. The nature of the LGPS means that these services are of a specialist nature with a limited number of experienced providers. This simplifies the process as the framework colleagues have done a significant amount of work in evaluating and ensuring that only providers who can deliver the range of services required by an LGPS Fund are included on each framework.

5. The last time these services were procured the Fund made use of the frameworks, and as there are updated frameworks in place for both services, it is intended that we do so again. The costs of accessing the frameworks are:

   - Actuarial services £3,000
   - Investment Consultancy Services £5,000

   This fee provides access to the procurement documentation. Subject to the numbers / value of contracts awarded to the chosen provider by participating LGPS funds, there are likely to be annual fee discounts rebated to the Fund through the contract periods.

6. The following paragraphs set out more specific information about each of the two contracts.

Actuarial Services

7. The LGPS Regulations 2013 require the Fund to carry out a triennial revaluation of the whole Fund's assets and liabilities, and to do this the services of an appropriately qualified actuary are required.

8. The current contract for Actuarial and Benefits Consulting with Hymans Robertson LLP expires in September 2023. There are some practical considerations in determining the length / timing of this contract as set out in the following paragraphs.

9. The largest task in this contract is the triennial valuation – which takes up more than a year in practice – taking the most recent (31 March 2022) valuation as an example, preparatory work began in the last quarter of 2021, the bulk of the detailed work was done between June and December of 2022 and the final report will be issued in March 2023. (There is a statutory deadline of 31 March). The valuation is a major task both for the Fund's officers (in providing the necessary data and communicating the valuation outcome to the various scheme employers) and for the actuary in carrying out the detailed valuation work. Therefore, in awarding a contract, it is necessary to ensure that the subsequent procurement will not need to be done whilst a future triennial valuation is in progress.

10. A second significant task is the provision of accounting information (FRS 102 / IAS 19) to scheme employers each year. This work is done shortly after the various employers' year ends, and there are 3 key dates on which most employers' year ends occur – 31 March for the Council, 31 July for colleges and 31 August for Academy Schools.

11. There are other tasks required on a more ad hoc basis – these include calculation of contribution rates for new employers (such as a school converting to an academy) and cessation calculations when an employer has no further active members (such as a TUPE contractor at the end of a contract).

12. The framework provides for contracts of up to 10 years, with a latest expiry date of June 2035.

13. Therefore, taking account of the above, it is proposed that the new contract be awarded for a period of 6 years and 3 months to expire in December 2029, with an option to extend by up to 4 years (subject to satisfactory performance). This will provide flexibility to avoid the Fund being required to re-procure at the "wrong" time should the Government change the revaluation cycle from 3 to 4 years (a possibility which has been mentioned in some quarters).

Investment Consultancy Services

14. The LGPS (Management and Investment of Funds) Regulations 2016 require each LGPS fund to "take proper advice from suitably qualified persons" in setting its investment strategy and making investment decisions. To meet this requirement, the Fund therefore has in place a contract for Investment Consultancy Services.

15. The current contract, with Aon, expires in January 2024. The contract covers matters relating to the Fund's Investment strategy, including advising on asset allocation, investment risks, manager monitoring and selection, and provision of information for investment reporting for quarterly Committee meetings and the Fund's annual report.

16. The constraints on timing which relate to regard to the actuarial contract are less onerous in respect of this one. However, given the small team

of officers working on this, it would be it would be preferable if this contract did not expire at a similar time to the actuarial contract in future.

17. The framework provides for contracts for up to 7 years, with a latest contract expiry date of 31 October 2033.

18. Therefore, taking account of the above, it is proposed that the new contract be awarded for a period of 4 years, with an option to extend for up to 3 years, subject to satisfactory performance).

Legal Implications

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

20. The Pension Fund Committee has the following powers and duties:

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

ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

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

iv. to establish a strategy for the disposition of the pension investment portfolio; and

v. to appoint and determine the investment managers' delegation of powers of management of the fund;

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

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

Financial Implications

21. There are no immediate financial implications arising from the report. However, once the reporting requirements are defined and incorporated into Regulations, there will be a cost in compiling the relevant information. These costs will be met from the Pension Fund.

Risk Management Implications

22. The Pension Fund's Risk Register is reviewed regularly by the Committee. The most recent review was considered at the 23 November 2022 meeting of the Committee.

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.

Council Priorities

26. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 14/03/2023

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 14/03/2023

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 14/03/2023

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

Report for:	**Pension Fund Committee**
Date of Meeting:	29 March 2023
Subject:	Triennial Valuation 2022 – Final Report
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	**None**
Enclosures:	**Appendix 1:** Actuary's Final Report **Appendix 2:** Actuary's Presentation Slides **Appendix 3:** Funding Strategy Statement

Section 1 – Summary and Recommendations

This report provides the Committee with the Actuary's final report on the valuation, and requests approval of the Funding Strategy Statement following the consultation with stakeholders on the draft reported to the Committee in November 2022.

Recommendations:

The Committee is recommended to:

1. Note the actuary's final report on the valuation.
2. Approve the Funding Strategy Statement and associated policies as set out in Appendix 3.

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, the valuation of the Fund's position at 31 March 2022 and the setting of employer contribution rates for the period 1 April 2023 to 31 March 2026 has been done by the Fund's Actuary, Steven Law, of Hymans Robertson LLP.

2. At the end of the process, the actuary is required to 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, and to issue a Rates and Adjustments Certificate, which sets 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 is attached at **Appendix 1** and will be formally certified by the statutory deadline of 31 March 2023. The Committee should note that the final section of the report – the Government Actuary's Department (GAD) Section 13 review – will be circulated as later material. The reason is that Hymans Robertson were awaiting some details from GAD which were not available in time for publication with the main agenda.

3. The final report will be published on the Scheme Advisory Board's website (this is a requirement for all LGPS Funds following the valuation) shortly after the end of March. Steven Law will present the final report to the meeting – his slide deck is attached at **Appendix 2**.

4. The Committee has previously 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
   - 12 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)
   - 29 November 2022 – a report and presentation about the draft Funding Strategy Statement and associated key policies (see below) and approved the draft for consultation with stakeholders.

5. Since the last meeting, an employers' meeting was held in December, at which the actuary presented on the valuation results and the draft Funding Strategy Statement as part of the consultation process.

6. Following that meeting, results, including contribution rates from 1st April 2023, were circulated to most "Non LBH" employers during December, and after the resolution of a small number of outstanding queries, the remaining employers received details of their proposed contribution rates in January 2023. As previously advised, the valuation results have led to a reduction in contribution rates for most employers.

7. As previously advised, once the valuation outcome is known, the Fund is required to approve 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 which was presented at the Committee's last meeting. As reported, 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. In addition, the FSS includes some key policies as appendices:

- Cessations
- Contribution Reviews
- Pass Through Arrangements

These policies 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 Fund has met this requirement with the employers' meeting on 8th December, the document was circulated to employers not represented at the meeting and was reviewed by the pension board at its meeting on 2 March 2023. A small number of comments were received – these are reflected in the updated FSS attached at **Appendix 3** for the Committee's approval. Once approved the FSS will be published on the Pension Fund's website.

Next Steps

10. This report concludes the formal valuation process. As discussed at the last meeting, the actuary has produced a long term cash flow forecast. This highlights the likely impact of the 10.1% "inflation" increase in benefits payable and the reductions in employer contribution rates from April 2023. This is being used to inform work on the Investment Strategy Review which is the subject of a separate report elsewhere on this agenda.

Legal Implications

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

12. The Pension Fund Committee has the following powers and duties:

    i. to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB

Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;

ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

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

iv. to establish a strategy for the disposition of the pension investment portfolio; and

v. to appoint and determine the investment managers' delegation of powers of management of the fund;

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

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

Financial Implications

13. The financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities. The impact of any change in the employer contribution rate will be reflected in the Council's budget and medium-term plan.

Risk Management Implications

14. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The most recent review was considered at the 23 November 2022 meeting of the Committee.

15. 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

16. Was an Equality Impact Assessment carried out? No
    There are no direct equalities implications arising from this report.

Council Priorities

17. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 10/03/2023

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 08/03/2023

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 10/03/2023

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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APPENDIX 1

HYMANS ROBERTSON

London Borough of Harrow Pension Fund

55

Report on the actuarial valuation at 31 March 2022

Steven Law FFA

Malcolm Stanley FIA

29 March 2022
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive Summary

The key result of the valuation of the London Borough of Harrow Pension Fund as at 31 March 2022 are set out below. Further explanation of the outcomes of the valuation are contained in the remainder of this report.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates & Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

57

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	18.1% of pay		19.2% of pay	
Secondary Rate	2023/2024	£5,423,000	2020/2021	£5,894,000
	2024/2025	£5,216,000	2021/2022	£5,894,000
	2025/2026	£5,048,000	2022/2023	£5,894,000

- The Primary rate has decreased due to the removal of additional prudence for McCloud which was included in 2019 (McCloud is now valued within the past service position and therefore impacts the Secondary rate)
- The Secondary rate has decreased due to good investment performance since the last valuation

Funding position

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the reported funding position at the current and previous valuation.

Table 2: Reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	344	278
Deferred Pensioners	207	178
Pensioners	506	447
Total Liabilities	**1,057**	**903**
Assets	**1,018**	**851**
Surplus/(Deficit)	**(39)**	**(52)**
Funding Level	**96%**	**94%**

Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by London Borough of Harrow (the Administering Authority) to carry out a valuation of the London Borough of Harrow Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

59

1. Employer contribution rates for the period 1 April 2023 to 31 March 2026.
2. The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2022 valuation toolkit.

Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling.

Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.

What is the funding target for each employer?
Will the employer remain in the Fund for the long-term or exit at some point

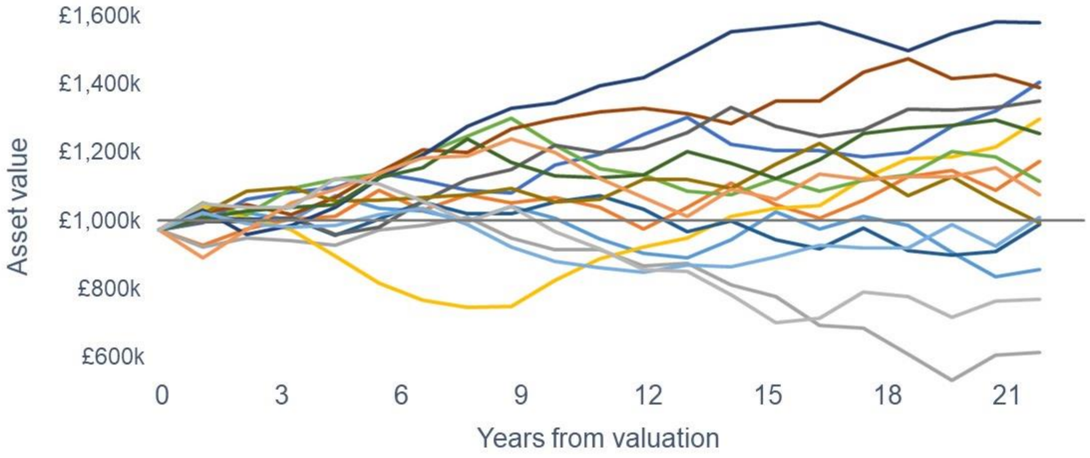
What is the funding time horizon?
How long will the employer participate in the Fund

What is the required likelihood?
How much funding risk can the employer's covenant support

Modelling approach

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in Appendix 2).

Picture 1: sample progression of employer asset values



Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. To measure the funding level, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

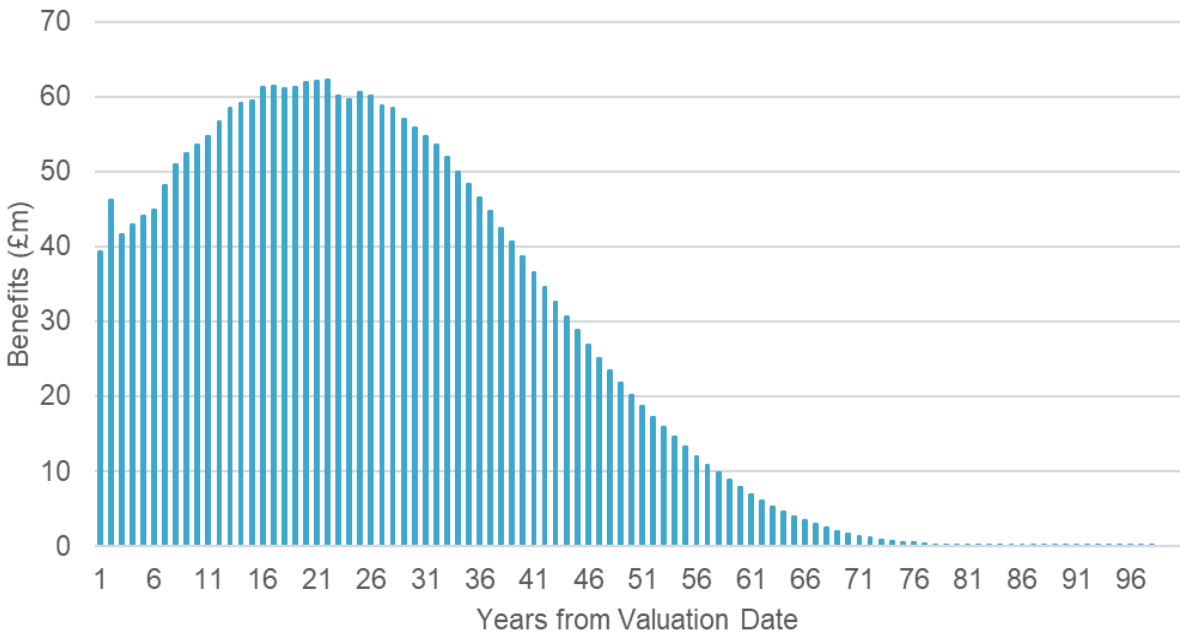
Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



HYMANS ROBERTSON

Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: any adjustment to the primary rate including the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the Rates & Adjustments Certificate. Broadly speaking:

- Primary rates have decreased as the additional prudence built in for McCloud in 2019 has been removed in 2022.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	18.1% of pay		19.2% of pay	
Secondary Rate	2023/2024	£5,423,000	2020/2021	£5,894,000
	2024/2025	£5,216,000	2021/2022	£5,894,000
	2025/2026	£5,048,000	2022/2023	£5,894,000

The primary rate includes an allowance of 1.2% of pensionable pay for the Fund's expenses (1.1% at 31 March 2019).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.4% at 31 March 2019).

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

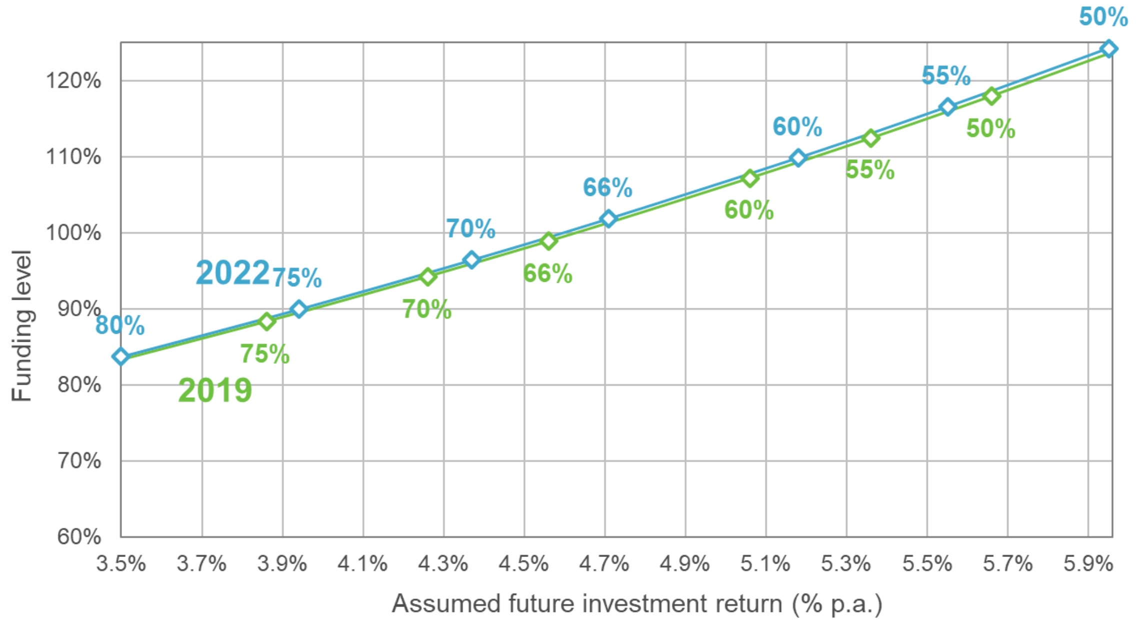
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- **The funding level is 100% if future investment returns are c.4.6% pa.**
- **The likelihood of the Fund's assets yielding at least this return is around 67%.**
- **The comparator at 2019 was a return of 4.7% pa which had a likelihood of 65%.**
- **The funding position at 2022 is stronger than 2019.**
- **There is a 50% likelihood of an investment return of 6.0% pa. So the best-estimate funding level is 124% at 31 March 2022 (117% at 2019).**

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that level of return over the next 20 years

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.4% pa has been used. There is a 70% likelihood associated with a future investment return of 4.4% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 100%.

Table 4: Reported funding level

Valuation Date	This valuation 31 March 2022	Last valuation 31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	344	278
Deferred Pensioners	207	178
Pensioners	506	447
Total Liabilities	**1,057**	**903**
Assets	**1,018**	**851**
Surplus/(Deficit)	**(39)**	**(52)**
Funding Level	**96%**	**94%**

Important: *the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has been a lower than expected amount of pensions ceasing over the period. However, the impact on the funding position has been small.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

66

Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	13.5%	21.1%	7.6%	+£65m
Annual	4.3% pa	6.6% pa	2.3% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	1,412	1,612	200	+£0m
Ill-health retirements	32	32	0	+£1m
Salary increases	3.3% pa	4.2% pa	0.9% pa	-£5m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£13m
Pension ceasing	£2.3m	£2.1m	-£0.2m	-£4m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to changes in financial markets, future investment returns are now expected to be higher than at the last valuation.

67

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.4% pa vs. 4.3% pa at 2019.	Decrease of £17m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £65m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Increase of £3m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £1m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £5m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Surplus / Deficit
	£m
Last valuation at 31 March 2019	**(52)**
Cashflows	
Employer contributions paid in	82
Employee contributions paid in	22
Other cashflows (e.g. Fund expenses)	(10)
Expected changes	
Expected investment returns	115
Interest on benefits already accrued	(121)
Accrual of new benefits	(97)
Expected position at 31 March 2022	**(61)**

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Surplus / Deficit
	£m
Expected position at 31 March 2022	**(61)**
Events between 2019 and 2022	
Salary increases greater than expected	(5)
Benefit increases less than expected	13
Early retirement strain (and contributions)	0
Ill health retirement strain	1
Early leavers less than expected	0
Commutation less than expected	(1)
McCloud remedy	(2)
Other membership experience	12
Higher than expected investment returns	65
Changes in future expectations	
Investment returns	17
Inflation	(65)
Salary increases	(3)
Longevity	(5)
Other demographic assumptions	(5)
Actual position at 31 March 2022	**(39)**

Numbers may not sum due to rounding

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Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it is important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
2.5%	(9)	99%
2.7%	(39)	96%
2.9%	(70)	94%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
1.50%	(39)	96%
1.75%	(47)	96%

Sensitivity and risk analysis: other risks

Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022.
- **Goodwin:** the remedy to this issue is still uncertain, it is difficult to identify who it would apply to and its impact is estimated to be very small for a LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is ongoing in relation to the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return from 31 March 2022 up to 28 February 2023 has been less than anticipated.
- Liability valuations are likely to be lower at 28 February than at 31 March 2022 due to rises in expected future investment returns and lower long term inflation expectations (noting that the impact will be damped by the higher than expected pension increase of 10.1% in April 2023).

The combined impact has resulted in a marked increase in funding levels over the period from 31 March 2022 to 28 February 2023.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

Sensitivity and risk analysis: climate change

Background
Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown in guide 10 of Hymans Robertson's LGPS 2022 valuation toolkit.

Outcome of analysis
The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the '*Core*' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding model to climate risk

Scenario	Likelihood of success	Downside risk
Core	**76%**	**46%**
Green Revolution	75%	47%
Delayed Transition	72%	44%
Head in the Sand	70%	42%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

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Final comments

Final comments

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

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

74

New employers joining the Fund
Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers
Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund in accordance with Regulation 103 of the LGPS regulations.
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement in accordance with Regulation 98 of the LGPS regulations.

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency
Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

SIGNATURE

SIGNATURE

Steven Law FFA
29 March 2023
For and on behalf of Hymans Robertson LLP

Malcolm Stanley FIA

Appendices

APPENDIX 1

Data

Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	5,366	5,342
Total actual pay (£000)	112,691	101,951
Total accrued pension (£000)	20,499	17,492
Average age (liability weighted)	54.8	53.9
Deferred pensioners (including undecideds)		
Number	7,612	7,650
Total accrued pension (£000)	11,747	10,947
Average age (liability weighted)	53.3	52.2
Pensioners and dependants		
Number	6,452	5,800
Total pensions in payment (£000)	33,543	30,206
Average age (liability weighted)	70.2	69.1

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

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Table 14: Investment strategy used for the 2022 valuation

% allocation	Core Strategy
UK corporate bonds (A rated)	10.0%
Diversified Growth Fund	5.5%
Emerging market equities	10.4%
Overseas equities	39.6%
UK Index Linked Gilts	5.0%
Infrastructure Equity	12.5%
Multi Asset Credit	10.0%
Private equity	1.0%
Property	6.0%
Total	**100.0%**

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation an in-depth analysis and review was carried out in February 2022 and subsequent assumptions agreed by the Pensions Committee

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Asset class annualised total returns											Inflation/Yields		
Time period	Percentile	Index Linked Gilts (medium)	Index Linked Gilts (long)	Private Equity	Property	Emerging Market Equity	Unlisted Infrastructure Equity	Diversified Growth Fund (low equity beta)	Multi Aseet 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	-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	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	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	-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	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	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	-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	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	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 (5yr)	7%	9%	30%	15%	26%	15%	5%	6%	5%	18%	7%	3%	-	-

APPENDIX 2

Assumptions

Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	This valuation 31 March 2022	Required for	Last valuation 31 March 2019
Discount rate	4.4% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund’s assets are estimated to have a 70% likelihood of returning above the discount rate.	4.3% pa
Benefit increases / CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.7% pa	To determine the size of future final-salary linked benefit payments.	3.0% pa

Allowing for the McCloud remedy

Allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022. Further technical detail about this assumption is set out in guide 13 of Hymans Robertson’s LGPS 2022 valuation toolkit.

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	**CMI 2021 model** Initial addition = **0.25% (both Female and Male)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement	**CMI 2018 model** Initial addition = **0.25% (Female), 0.5% (Male)** Smoothing factor = **7.0** **1.25% pa** long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Tables 19 & 20
Retirements in ill health	See sample rates in Tables 19 & 20
Withdrawals	See sample rates in Tables 19 & 20
Promotional salary increases	See sample rates in Tables 19 & 20
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option (main scheme) if they are currently in the main scheme (50:50 scheme).
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Proportion married	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

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	0.00	0.00	0.00	0.00
25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
30	131	0.20	189.49	380.97	0.00	0.00	0.00	0.00
35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
40	150	0.41	119.20	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	0.90	0.68	0.23	0.17
55	162	1.70	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	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Table 20: Sample rates of female demographic assumptions

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	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.10	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.10	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	0.10	0.08
50	162	0.90	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	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

APPENDIX 3

Reliances and limitations

82

We have been commissioned by London Borough of Harrow ("the Administering Authority") to carry out a full actuarial valuation of the London Borough of Harrow Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

Hymans Robertson LLP is the owner of all intellectual property rights in this report. All such rights are reserved.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2022 valuation toolkit which sets out the methodology used when reviewing funding plans
- Our paper to the Fund's Pension Committee dated September 2022 which discusses the funding strategy for the Fund's council
- Our paper to the Fund's Pension Committee dated February 2022 which discusses the valuation assumptions
- Our initial results report dated September 2022 which outlines the whole fund results and inter-valuation experience
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forward into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government’s preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioners	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

84

APPENDIX 4

Glossary

Term	Explanation
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
Employee members	Members who are currently employed by employers who participate in the fund and paying contributions into the fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioners	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.

APPENDIX 4

Glossary

Term	Explanation
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the fund's expenses.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Rates & Adjustments certificate

Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the London Borough of Harrow Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2023 and in Appendix 2 of the report on the actuarial valuation dated March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

		This valuation 31 March 2022	
Primary rate		18.1% of pay	
Secondary rate		Monetary amount	Equivalent to % of payroll
	2023/24	£5,423,000	4.4%
	2024/25	£5,216,000	4.1%
	2025/26	£5,048,000	3.8%

The required minimum contribution rates for each employer in the Fund are set out in the remained of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Scheduled Bodies									
	London Borough of Harrow	17.8%	-1.8% plus £6,000,000	-1.8% plus £6,000,000	-1.8% plus £6,000,000	16.0% plus £6,000,000	16.0% plus £6,000,000	16.0% plus £6,000,000	1 & 2
5	Stanmore College	17.2%				17.2%	17.2%	17.2%	
11	St Dominic's Sixth Form College	18.8%				18.8%	18.8%	18.8%	
Admitted Bodies									
2	North London Collegiate School	35.4%	£71,000	£71,000	£71,000	35.4% plus £71,000	35.4% plus £71,000	35.4% plus £71,000	
35	Linbrook Services (aka. Wates)	22.2%				22.2%	22.2%	22.2%	
43	Govindas	29.1%	-9.3%	-9.3%	-9.3%	19.8%	19.8%	19.8%	
62	Evergreen Catering (Harrow High)	19.8%				19.8%	19.8%	19.8%	3
63	Evergreen Catering (Aylward)	19.7%				19.7%	19.7%	19.7%	3
68	Evergreen LBH Harrow	19.1%				19.1%	19.1%	19.1%	3
71	Evergreen Cleaning	19.9%				19.9%	19.9%	19.9%	3
72	SOS Ltd	24.9%				24.9%	24.9%	24.9%	3
73	PSC Group	19.1%				19.1%	19.1%	19.1%	3
74	SOS Longfield	24.9%				24.9%	24.9%	24.9%	3
75	PSC Vaughan	19.1%				19.1%	19.1%	19.1%	3
76	PSC Roxeth	19.1%				19.1%	19.1%	19.1%	3
77	Brayborne Facilities	27.7%				27.7%	27.7%	27.7%	3
581	ISS Catering Bentley Wood	22.0%				22.0%	22.0%	22.0%	3
582	ISS Catering Hatch End	22.6%				22.6%	22.6%	22.6%	3
583	ISS Catering Harrow High	23.5%				23.5%	23.5%	23.5%	3

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
584	ISS Catering Park High	22.5%				22.5%	22.5%	22.5%	3
585	ISS Catering Nower Hill	22.5%				22.5%	22.5%	22.5%	3
Academies									
	Avanti School MAT	17.5%	0.5%			18.0%	17.5%	17.5%	4
	Blessed Holy Family Catholic Academy Trust	18.9%	4.5%	4.3%	4.3%	23.4%	23.2%	23.2%	5
	Bentley Wood and Aylward MAT	18.5%	5.1%	4.1%	3.1%	23.6%	22.6%	21.6%	6
	Harrow High	17.6%	5.3%	4.3%	3.3%	22.9%	21.9%	20.9%	7
28	Canons High	17.9%	4.4%	3.4%	2.4%	22.3%	21.3%	20.3%	
30	Hatch End High School (Academy)	17.9%	5.8%	5.2%	5.2%	23.7%	23.1%	23.1%	
31	Nower Hill	17.9%	4.0%	3.0%	2.0%	21.9%	20.9%	19.9%	
32	Park High	18.1%	5.6%	5.6%	5.6%	23.7%	23.7%	23.7%	
33	Rooks Heath	18.2%	4.9%	3.9%	2.9%	23.1%	22.1%	21.1%	
37	Salvatorian College	17.8%	10.7%	9.7%	8.7%	28.5%	27.5%	26.5%	
40	Alexandra School	17.6%	5.4%	4.4%	3.8%	23.0%	22.0%	21.4%	
42	Jubilee School (Free School)	17.9%	0.4%			18.3%	17.9%	17.9%	
44	Heathland and Whitefriars	18.1%	3.8%	2.8%	1.8%	21.9%	20.9%	19.9%	
51	St Bernadette's Academy	17.8%	5.0%	5.0%	5.0%	22.8%	22.8%	22.8%	
53	Pinner High School	17.8%	0.7%			18.5%	17.8%	17.8%	
54	St Jerome School	18.3%	1.6%	1.6%	1.6%	19.9%	19.9%	19.9%	
55	Earlsmead Academy	18.7%	4.0%	3.9%	3.9%	22.7%	22.6%	22.6%	
59	Welldon Park School	18.1%	5.1%	4.1%	3.1%	23.2%	22.2%	21.2%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
60	Priestmead School	18.5%	5.0%	4.0%	4.0%	23.5%	22.5%	22.5%	
70	Hujjat Primary School	19.1%	2.1%	1.1%	0.1%	21.2%	20.2%	19.2%	

Notes to the Rates and Adjustments Certificate

1. The following active employers are pooled with the London Borough of Harrow: London Borough of Harrow (1), Cannon Lane F&M School (15) and Grange Primary School (57)
2. The equivalent total contribution rate as a percentage of pay for the London Borough of Harrow Pool is 23.0% of pensionable pay.
3. Employer participates under a pass through arrangement. Please note, the primary rate shown is the agreed pass through rate for each employer and does not necessarily reflect the underlying cost of benefits accruing.
4. The following active employers are pooled with Avanti School MAT: Krishna Avanti School (36), Avanti House Primary Free School (38), Avanti Trust (52) and Avanti House Secondary Free School (56)
5. The following active employers are pooled with Blessed Holy Family Catholic Academy Trust: Sacred Heart (64), St John Fisher (65), St Josephs Primary (66) and St Georges Primary (67)
6. The following active employers are pooled with Bentley Wood and Aylward MAT: Bentley Wood (27) and Aylward School (45)
7. Harrow High is pooled with its legacy admission body.

91

Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.
- The monetary contributions set out in the certificate above can be prepaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

SIGNATURE

Steven Law FFA

29 March 2023
For and on behalf of Hymans Robertson LLP

SIGNATURE

Malcolm Stanley FIA

Section 13 Dashboard

Section 13 dashboard

To be completed once GAD confirm required information

93

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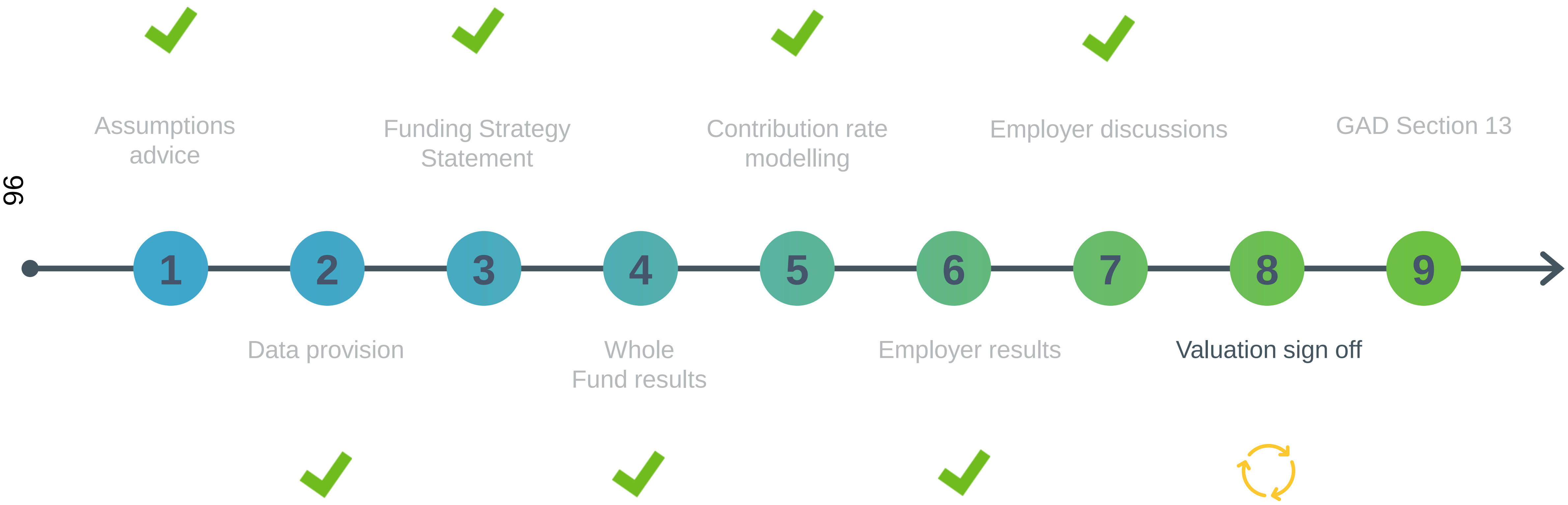
Harrow Pension Fund

2022 Actuarial Valuation

Steven Law FFA

29 March 2023

The valuation process



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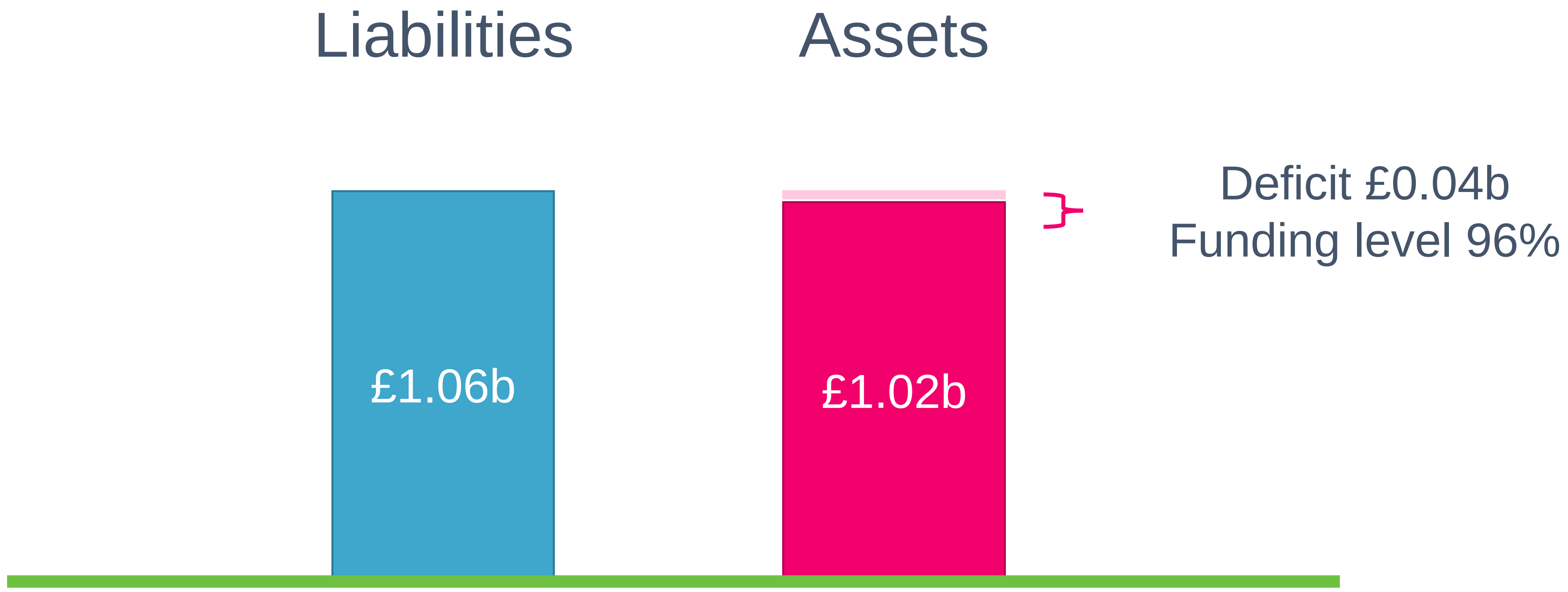
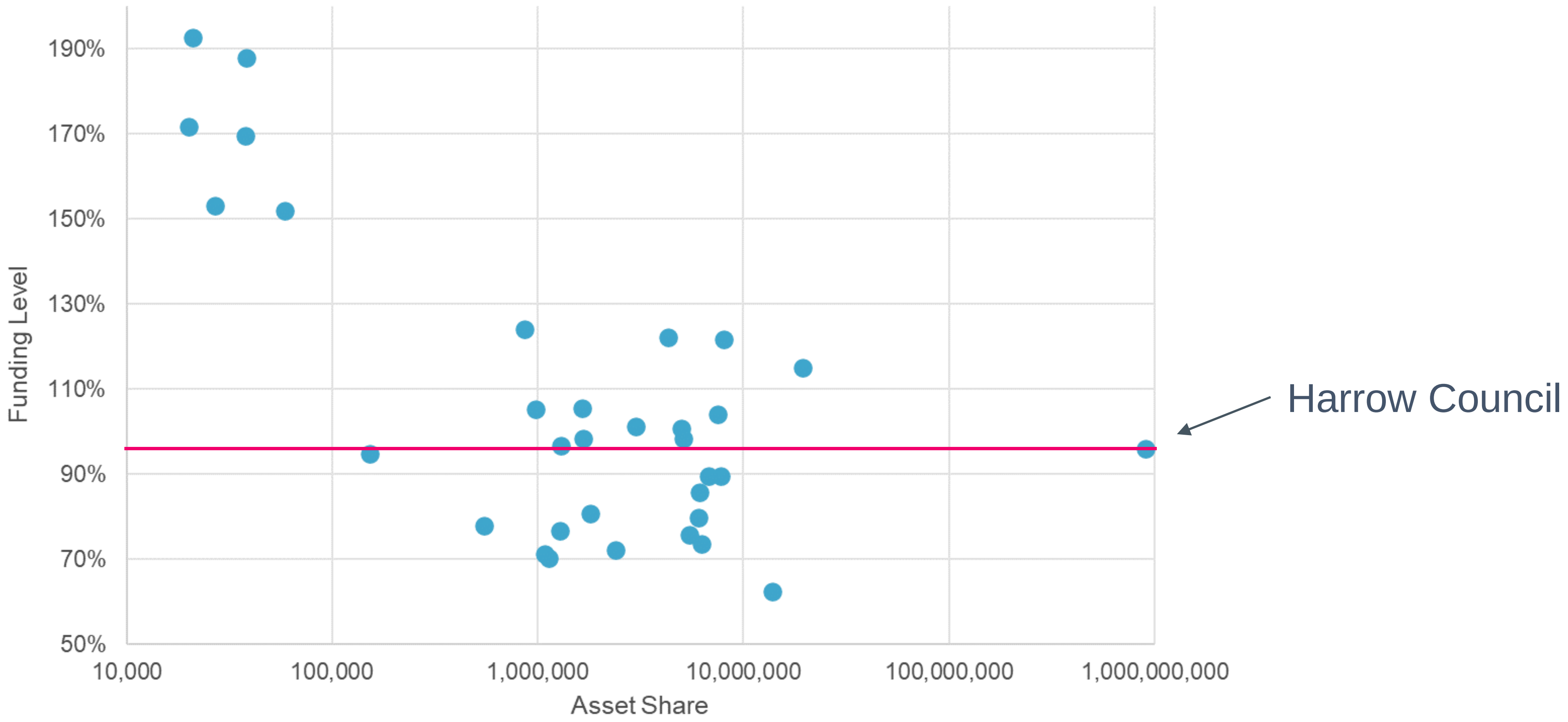
Whole Fund Results – Recap

Whole Fund results...



Whole Fund Results – Contributions

Employer funding levels



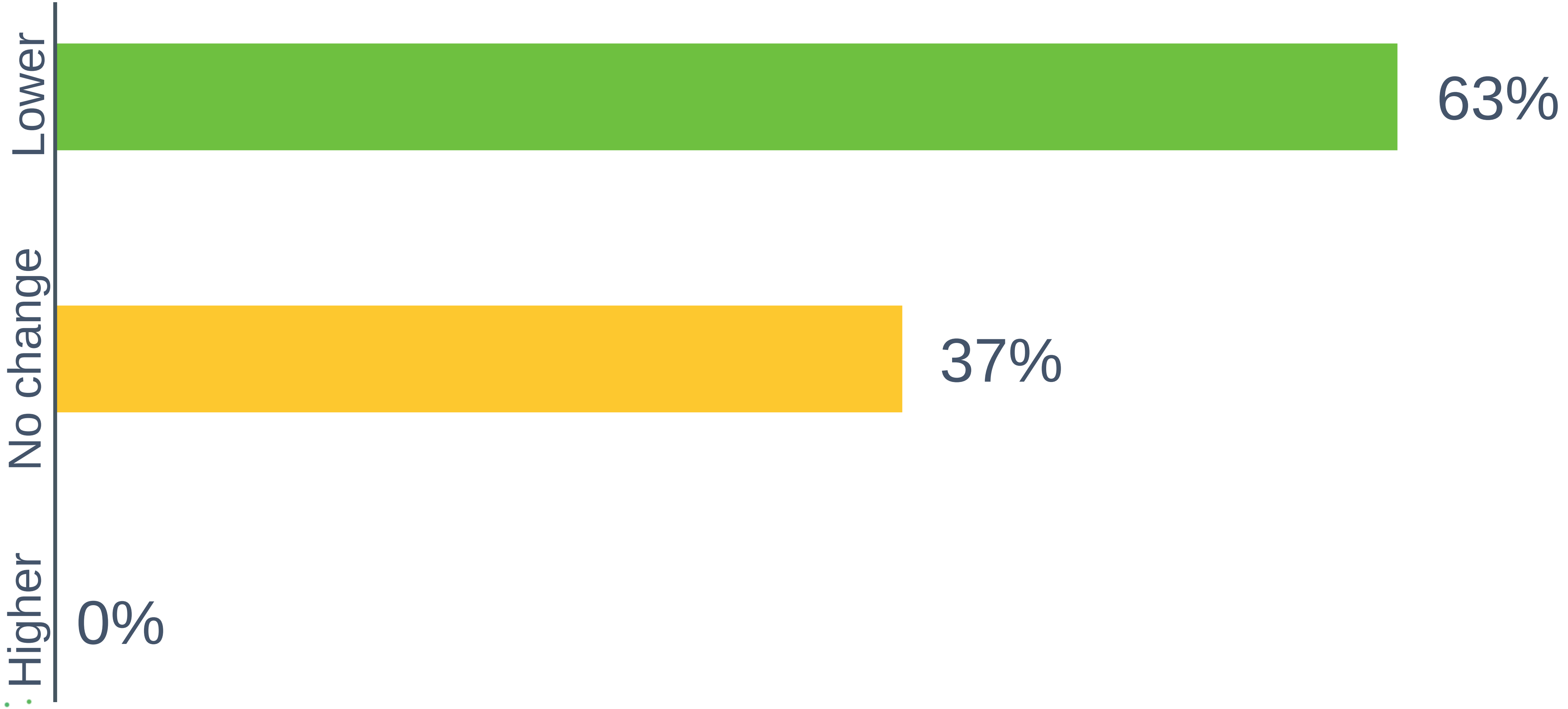
Funding is carried out at individual employer level

Setting employer rates

Sustainability

Stability

Contribution rate changes from 1 April



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What does this mean for the Council?

	2020-2023	2023-2026
Primary Rate	19.1% of pay	17.8% of pay
+ Secondary Rate	-3.1% of pay Plus £7.3m pa	-1.8% of pay Plus £6.0m pa
= Total Rate	16.0% of pay Plus £7.3m pa	16.0% of pay Plus £6.0m pa

HYMANS # ROBERTSON

Next steps

Next steps

- Final sign-off
- Monitor cashflow
- Investment review
- GAD Section 13 Valuation

HYMANS ROBERTSON

Thank you

APPENDIX 3

Funding Strategy Statement

London Borough of Harrow Pension Fund

April 2023

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 1 April 2023.

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
- use reasonable measures to manage exposure to environmental, social and governance risks, and their impact on long term employer funding.

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	At the discretion of administering authority				

** 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 £6,000,000. 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
Blessed Holy Family Catholic Academy Trust	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
- 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 Pension Fund 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	1 April 2023
Date approved	29 March 2023
Next review	31 March 2026

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 Pension Fund Committee for consideration and considered on its individual merit. Decisions may be made by the officers (in consultation with the Chair and opposition spokesperson) 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	1 April 2023
Date approved	29 March 2023
Next review	31 March 2026

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	1 April 2023
Date approved	29 March 2023
Next review	31 March 2026

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 Fund Committee**
Date of Meeting:	29 March 2023
Subject:	Responsible Investment Policy
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	**None**
Enclosures:	**Appendix 1** – Draft Responsible Investment Policy **Appendix 2** – Investment Strategy Statement

Section 1 – Summary and Recommendations

Further to previous discussions, this report includes a draft Responsible Investment Policy and updated Investment Strategy Statement for the Committee to consider and approve.

Recommendations:

The Committee is recommended to approve:

1. the draft Responsible Investment Policy attached at Appendix 1
2. the updated Investment Strategy Statement at Appendix 2.

Section 2 – Report

1. The LGPS (Investment and Management of Funds) Regulations 2016 set the framework within which LGPS pension funds are required to manage their investments. They are required to have an Investment Strategy Statement (ISS) – which sets out how the Fund will manage and invest its assets to enable it to meet its Funding Strategy.

2. The Regulations include a requirement for funds to have a policy setting out how environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. For LBH, to date the Investment Strategy Statement has contained that information.

3. With growing concern about climate change, a greater awareness of social issues such as working conditions and governance issues including equality, diversity and executive remuneration, it is now considered best practice for LGPS Funds to have a standalone Responsible Investment (RI) Policy. The likely introduction of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) – reported to the Committee on 29 November 2022 - highlights this further.

4. Following discussion at the Fund’s informal briefing session in July 2022, it was agreed that the morning of the “Training and Meet the Manager” day would be devoted to RI training – and accordingly a workshop training session was led by Jennifer O’Neill – an RI specialist from the Fund’s Investment Consultant (Aon).

5. Following that meeting, the Committee members completed a survey to determine their “Investment Beliefs” and this was used to develop a draft RI Policy, which was considered by the Committee in November 2022.

6. As agreed at that meeting, further work has been undertaken, and an updated draft policy is now attached **– appendix 1**. The Policy sets out the Committee’s Investment beliefs, and how these will be translated / implemented via the Investment Strategy. The Committee is asked to approve this document.

7. As a consequence of the Policy, some changes are required to update the Fund’s Investment Strategy Statement – the updated version is attached as **appendix 2**. The changes are highlighted in red, and also adjust for the change in the Fund’s Emerging Market equities manager. The Committee is also asked to approve this document.

8. Both documents were considered by the Pension board at its meeting on 2 March 2023. After asking a number of questions, including about how the section on “Voting and Engagement” would work in practice. After discussions, the Board endorsed the Policy as a helpful development and recommended no changes to the draft.

9. Once approved by the Committee, the documents will be published on the LBH Pension Fund website.

Legal Implications

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

11. The Pension Fund Committee has the following powers and duties:

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

ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

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

iv. to establish a strategy for the disposition of the pension investment portfolio; and

v. to appoint and determine the investment managers' delegation of powers of management of the fund;

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

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

Financial Implications

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

Risk Management Implications

13. The Pension Fund’s Risk Register is reviewed regularly by both this Committee and by the Pension Board. The most recent review was carried out at the 23 November 2022 meeting of the Committee.

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 and having a Responsible Investment Policy will assist in managing those risks.

Equalities implications / Public Sector Equality Duty

15. Was an Equality Impact Assessment carried out? No
There are no direct equalities implications arising from this report.

Council Priorities

16. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council’s priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 10/03/2023

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 08/03/2023

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 10/03/2023

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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London Borough of Harrow Pension Fund

Draft Responsible Investment Policy

For consideration by Pension Fund Committee
29 March 2023

Purpose

The purpose of this policy is to set out our Responsible Investment beliefs and principles, and to detail the approach we are taking to fulfil our commitments.

The effective date of this policy is 30 March 2023

Introduction

The London Borough of Harrow ("the Council"), in its capacity as Administering Authority, is responsible for administering the London Borough of Harrow Pension Fund (the "Fund").

The Council has delegated to the Pension Fund Committee (the "Committee") all the powers and duties of the Council in relation to its functions and authority. We are therefore responsible for making all investment decisions regarding the Fund.

As the Committee, we recognise that it is our fiduciary duty is to act in the best financial interest of members of the Fund and to ensure that the objectives of the Fund are met. We therefore aim to seek the best investment return to meet the funding objective subject to an appropriate level of risk and liquidity.

In defining Responsible Investment ('RI'), we have looked to the Principles for Responsible Investment (PRI)'s definition as the integration and consideration of environmental, social and governance ('ESG') issues into both initial asset investment processes and then ongoing asset ownership practices.

We recognise that, as a long-term investor, we (and, by extension, our appointed fund managers and our advisor) should incorporate ESG risks into our investment decision making process, as the long-term value of investments may be negatively impacted if these risks are not understood or evaluated properly. Likewise, emerging opportunities may be missed if ESG factors are not roundly considered.

In developing the Fund's approach to RI, we seek to understand and manage the ESG considerations to which the Fund is exposed, to the extent that these may impact on the Fund's asset portfolio or overall strategy.

This policy sets out our beliefs and approach to RI, including actions taken on behalf of members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Fund from ESG-related risks.

Our beliefs and principles

The Committee has discussed and agreed consensus beliefs and principles relating to RI. These beliefs and principles form the basis of our policy and are set out below.

- Environmental, social and governance (ESG) factors are **financially material and an important component of the Committee's decision making. T**aking these issues into account is **consistent with and necessary to meet the Committee's fiduciary duty** to members of the Fund.
- The Fund is a **long-term investor,** and the Committee will invest in a manner that is consistent with that long-term outlook. Investing in this manner is expected to generate greater and more sustainable risk-adjusted returns. Accordingly, the Committee expect the Fund's appointed fund managers to make decisions with longer term ESG risks in mind.

- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it is therefore important that our appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.
- Risk and return considerations are key to ensuring the Fund's fiduciary duty to members is fulfilled, although there are wider issues which may influence the Committee's decision making on investments. These include the approach to asset stewardship and engagement taken by prospective or current investment managers appointed by the Fund, and **wider social and environmental impact of investments**. In particular, awareness of negative environmental or social impacts arising from the Fund's investments is important in considering how to mitigate those impacts.
- **Climate change is a key risk factor** to the Fund which may impact on the achievement of its investment return objectives over the relevant time horizon. Therefore, climate-related matters should be assessed and understood to protect the Fund from this risk, and to capture opportunities arising as a result of the transition over time to a low-carbon economy. The Committee also believe that social issues (including working conditions) and broader consideration of nature-related outcomes (including pollution and deforestation), both of which are impacted by climate change, are relevant to decision-making.
- The Committee will seek advice and information from its advisor with regard to how the Fund's **approach to climate risk mitigation** and management can develop over time, including with respect to setting relevant targets (such as 'net zero' carbon dioxide emissions by 2040) and ongoing monitoring of the Fund's position.
- Acting as responsible stewards of capital is important, and the Committee believes in the **value of engagement**. To that end, the Committee expects that the Fund's relevant **voting rights** will be exercised to the fullest extent possible, and that the Fund's managers will **actively engage** with underlying assets to encourage continued development of sustainable business practices, transparency, and thus inform their decision making on investment selection, realisation, and retention.
- The Committee recognise that **the Fund's members may have an interest** in how RI is incorporated as part of the Fund's investment strategy. Accordingly, the Committee will **incorporate the RI policy and approach into member communication and engagement**.

Our RI approach

We take the important steps and follow the procedures below to ensure our investment strategy is aligned with our beliefs and principles regarding RI.

Committee decision making

We aim to integrate consideration of ESG issues throughout all aspects of our investment decision making process, including modelling and setting investment strategy and monitoring the Fund's investment managers. We are supported in these aims through regular and ongoing input from, and engagement with, our investment advisors.

We do not apply personal, ethical or moral judgments when making investment decisions, and instead remain focused on the primary objective of acting in the best financial interests of the Fund's members. With the support of our advisors, we consider the availability, suitability and depth of conviction in an idea or strategy before investing and will take into account the expected cost versus potential benefit from a scheme member's perspective in line with our fiduciary duty.

We undertake periodic training on RI to understand how ESG factors, including climate change, could impact the Fund’s assets/liabilities and members’ retirement outcomes.

ESG risk monitoring and assessment

Our processes to monitor and assess ESG-related risks and opportunities include the following:

- Our Investment Consultants monitor the Fund's underlying managers on an ongoing basis, including detailed due diligence to assign an ‘ESG rating’ to underlying managers which reflects the quality of their approach and commitment to ESG integration. We discuss and monitor ESG ratings of the Fund's investment managers on an ongoing basis.
- We recognise that developments will continue in this area. We ask our investment advisors to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- Immediately after each triennial valuation of the Fund we will undertake a formal review of the Fund’s triennial investment strategy. Both during these reviews and in our ongoing investment monitoring activity, we will specifically consider RI issues, including the merits of strategies which seek to generate positive financial returns while also seeking to make a wider positive impact on society.
- We include ESG-related risks, including climate change, on the Fund's risk register as part of our ongoing risk assessment and monitoring.
- To support our risk and opportunity identification and management, as these become a requirement for LGPS funds we will make use of the recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”), which has established a set of clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change.
- As part of formal investment strategy reviews, we will consider qualitative and quantitative climate change scenario analysis to review the potential risks and consider mitigating action as required.
- We expect our investment managers to understand our RI principles, beliefs and requirements. We provide our Policy to our Investment Consultant, advisors and appointed fund managers and ask them to confirm their adherence.
- In the event that any fund manager or service provider does not meet any of the expectations listed in this policy, the Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

Expectations and monitoring of investment managers

- As part of our delegated responsibilities, we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments.
- Whilst we do not expect all our investment managers to explicitly take into account non-financial ESG considerations (eg exclusion of investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government), we do expect transparency on these matters in order to facilitate a full understanding of the Fund’s investments.

- We, with the support from our Investment Consultant, carry out a periodic review of the ESG profile of the investments. The use of third-party data from MSCI, manager data from the PRI, and alongside commentary from the Consultant, can support the Committee in identifying areas of potential ESG risk and engagement points.
- We expect investment managers to align with the UK Stewardship Code Principles and PRI objectives. Where managers are not signatories to these codified principles, we will assess with our Investment Consultant how the manager is implicitly aligned as part of our monitoring.

Implementation

- Where applicable, we invest in assets that meet at least a minimum threshold ESG rating/requirement, and this threshold will be reviewed on a periodic basis to ensure that it meets our evolving requirements.
- We recognise that new investment approaches often come to market which aim to address both the risks and opportunities presented by global challenges. We will consider such new investment approaches (across all asset classes) that are raised by the Fund's investment advisor and will assess the suitability of such investments within the context of the wider Fund in discussion with its Investment Consultant.
- We expect the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of social and environmental impact matters.
- We expect the Fund's investment managers to provide their RI policy to us and our advisors periodically, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When we look to appoint a new investment manager, we will request and consider this information as part of the selection process. We will review responses with support and input from the Fund's Investment Consultant.

Training

The Committee will receive training on a regular basis from the Fund's Investment Consultant on relevant RI matters, including but not limited to evolving regulatory requirements.

Stewardship – voting and engagement

We recognise the importance of our role as a steward of capital. Whilst we recognise that we do not control (or wish to control) the investment decisions that our investment managers take on our behalf, we believe in using our influence, where possible, through those fund managers to promote the highest standards of governance and corporate responsibility in the underlying companies in which the Fund's investments reside. We recognise that ultimately this protects the financial interests of the Fund and its beneficiaries.

We therefore expect the Fund's investment managers to use their influence as major institutional investors to carry out our rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies.

We request details on an annual basis of how the Fund's investment manager is undertaking voting and engagement activity.

Voting information should include details of voting actions and rationale with relevance to the Fund, in particular, where:

- votes were cast against management;
- votes against management generally were significant and
- votes were abstained

Similarly, engagement activity disclosures should be of relevance to the Fund's investments and include information on the rationale and outcome of engagement activity.

We will review the stewardship activities on an annual basis with input from the Fund's Investment Consultant and will engage with managers as required.

Initiatives and industry collaboration

We recognise that collaboration with others and support of broader initiatives can be a powerful tool to influence behaviour.

We expect the Fund's investment managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

We expect our advisors to keep us informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with our beliefs and principles. The Fund is already a participating member of the Local Authority Pension Fund Forum ("LAPFF"), which is active in furthering responsible investment issues across participating LGPS members.

Evolving our approach

We acknowledge that the Fund's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.

We are committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy and are focused on making sure that it remains relevant and appropriate for our members.

Disclosure and reporting

We believe transparency is important. In support of this belief, we will consider our approach to incorporating this policy and its direction in engaging with members. This policy supplements additional disclosures and information available as part of our Investment Strategy Statement (available at https://www.harrowpensionfund.org/resources/investment-strategy-statement-march-2019/).

Review

We will review this policy

- annually,
- as part of each formal investment strategy review (which follows the triennial valuation),
- or as required in response to changing regulations or broader governance developments.

LONDON BOROUGH OF HARROW PENSION FUND

INVESTMENT STRATEGY STATEMENT

March 2023

CONTENTS

Executive Summary

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

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

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

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

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity under Regulation 7 of the Local Government Pension Scheme as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

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

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

1.4 The ISS, which was last approved by the Committee in September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee will consult on the contents of the Strategy with each of its employers, the Pension Board and the trade union observers. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

1.5 The amendments to the investment policy reflect the results of the Investment Strategy Review and Asset Liability Modelling exercise that was undertaken in 2020.

2. Statutory background

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

2.2 The ISS required by Regulation 7 must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2.3 The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

3. Directions by Secretary of State

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

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

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

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

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

4 Advisers

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

- Aon Solutions UK Ltd ("Aon") – investment consultants
- The Fund’s Independent advisers
- The Director of Finance & Assurance
- The Council’s Legal Services
- The Fund’s investment managers

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

5 Objective of the Fund

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

5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund’s investment returns will be at least in line with the assumptions underlying the actuarial valuation.

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

6 Investment beliefs

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

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

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

7 The suitability of particular investments and types of investments

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

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

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

7.4 The Committee, as advised by Aon, considered the Fund's investment strategy in light of the 2019 Actuarial Valuation. In September 2020 the Committee agreed with Aon's recommendation that the Fund's high-level allocation be split into three 'buckets': Equities; Diversifying Return Assets; and Risk Control Assets. Subsequently the underlying allocations within each of these 'buckets' has been reviewed. The resultant strategic asset allocation benchmark for the Fund is detailed in the table below.

ASSET CLASS	MANAGEMENT APPROACH	Strategic	
		ALLOCATION	RANGE
		%	%
Equity Bucket		**50.0**	**45.0 - 55.0**
Global	Passive, Low Carbon	24.0	
Global	Active	10.0	
Global	Active, Sustainable	8.0	
Emerging Markets	Active	8.0	
Diversifying Returns Bucket		**25.0**	**20.0 - 30.0**
Property	Active	7.5	
Infrastructure	Active	7.5	£68m Committed
Diversified Growth	Active	5.0	£50m committed
Source of funds*		5.0	
Private Equity**	Active	0.0	
Risk Control Bucket		**25.0**	**20.0 - 30.0**
UK Corporate Bonds	Active	5.0	
Global Bonds	Active	5.0	
Index-Linked Bonds	Passive	5.0	
Multi-Asset Credit	Active	10.0	
TOTAL* **		**100.0**	

*Source of funds allocation represents assets to be deployed after consideration of options available, including with the London CIV. Assets to be held in the Diversified Growth Fund until suitable opportunities identified. The Committee have identified a Renewable Infrastructure Fund as the first investment for this allocation.
** note that the Fund has a residual allocation to Private Equity, which is winding down.
*** the Fund may also hold an allocation to Cash. This is generally held for liquidity purposes, including waiting for drawdowns in respect of illiquid assets,

7.5 Under the existing strategy, the rationale for the three 'buckets' is:

- **Equities:** The main return driver in the Pension Fund's investment strategy;

- **Diversifying Return Assets:** Assets whose role is to generate returns (similar to the role of Equities), but which provide additional diversification.

- **Risk Control Assets:** Assets which target a lower level of return than Equities, but with a lower level of risk. These assets typically have some links to the characteristics of the Pension Funds' pensions in payment (e.g. inflation) and the growth in pensions to be paid in the future.

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

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

7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for closed ended investments (e.g. private equity and infrastructure) which are subject to distributions and drawdowns, a re-balancing exercise is carried out. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.

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

7.9 The table below shows the 10 year expected returns and volatilities for the asset classes modelled as part of the investment strategy review (data as at 31 March 2019, the date of the Actuarial Valuation):

Asset Class	31 Mar 2019 Returns	31 Mar 2019 Volatility
UK Equity	6.7%	19.0%
Developed Market Equity	6.7%	19.5%
Emerging Market Equity	8.2%	28.0%
Private Equity	8.2%	27.5%
Infrastructure (European)	7.2%	18.5%
Diversified Growth (Cap Pres)	4.4%	9.0%
UK Property	5.2%	12.5%
Multi-Asset Credit (High Yield)	4.4%	10.0%
UK Corporate Bonds (10y AA)	1.9%	9.0%
Fixed Interest Gilts (15y)	1.4%	11.0%
Index-Linked Gilts (20y)	0.2%	10.5%
RPI inflation	3.1%	1.0%
Cash	1.2%	0.5%

Source:Aon

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

8 Asset classes

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

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

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

8.4 The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property, infrastructure and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

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

9 Fund managers

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

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

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

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

9.5 As at the date of this Investment Strategy Statement, the details of the managers appointed by the Committee are as follows:

Manager	Asset Class	Management Approach	Benchmark	Target
London CIV	Global Equities (Longview)	Active	MSCI World Index (GBP) Total Return (Net)	Achieve capital growth
	Global Equities (RBC)	Active, Sustainable	MSCI World Index Total Return (Net) in GBP	Outperform the benchmark by 2% p.a. (net) over rolling 3 year periods
	Emerging Market Equities (JP Morgan)	Active	MSCI Emerging Market Index Total Return (Net) in GBP	Outperform the benchmark by 2.5% (net of fees) over a rolling 3 year period
	Global Credit (PIMCO)	Active	Barclays Aggregate – Credit Index Hedged (GBP) Index	Outperform the benchmark over a rolling 3 year period (net of fees)
	Multi-Asset Credit (CQS)	Active	SONIA	SONIA +4.5%, with volatility of 4%-6% p.a. over rolling 4 year period (net of fees)
	Infrastructure (Stepstone)	Active	8% - 10% p.a. and cash yield of 4% - 6% p.a.	
	Renewable Infrastructure	Active	7% - 10% p.a. and cash yield of 3% - 5% p.a.	
BlackRock	Global Equities	Passive, Low Carbon	MSCI Low Carbon Target Reduced Fossil Fuel Select Index	Track the benchmark
	UK Credit	Active	iBoxx Sterling non-Gilts 10+ Years Index	Outperform the benchmark over the long term (5 consecutive years)
	UK Index Linked Gilts	Passive	FTSE Actuaries UK Index-Linked Gilts over 5 Years Index	Track the benchmark
	Cash*	Passive	Sterling Overnight Index Average Rate (SONIA)	Maximise income on the investment consistent with maintaining capital and ensuring the underlying assets can easily be bought or sold in the market (in normal market conditions)
~~GMO~~	~~Emerging Market Equities~~	~~Active~~	~~MSCI Emerging Markets Index ND~~	~~Outperform a standard emerging markets index (such as MSCI EM) over the long run by 3%.~~
Insight	Diversified Growth	Active	SONIA	SONIA + 4.5% p.a. gross of fees
La Salle	Property	Active	MSCI/AREF All Property Fund Index	Outperform the benchmark, by maximising total return through a combination of capital growth and income return.

Pantheon	Private Equity	Active	• Europe Fund V 'A' LP - MSCI Europe Net TR; FTSE Europe Net TR • USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index • Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR;	Outperform the relevant benchmarks by 3-5%
Record	Currency Hedging	Passive	To provide a passive currency hedge of 50% of the Fund's global equity exposure	

* Cash is generally held for liquidity purposes, including waiting for drawdowns in respect of illiquid assets
~~** LIBID will cease to exist as an index at the end of 2021. We expect the benchmark to be updated to reflect a similarly appropriate index, for example SONIA.~~

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

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

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

10 Stock lending

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

11 Approach to risk

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

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

11.3 The most significant investment risks and methods of managing them are summarised in paragraphs 11.4 – 11.6 below.

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

11.5 A policy of diversification for its investments and investment managers helps the Committee to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the Fund.

11.6 The Committee looks to balance investment returns with ensuring the Fund has sufficient liquidity and cashflow available to meet benefit payments. More than 60% of the fund is invested in highly liquid strategies such as equities and bonds.

11.7 Funding risks

11.7.1 The major funding risks identified are:

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

11.7.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling undertaken in 2020 which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

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

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

11.8 Asset risks

11.8.1 The major asset risks identified are:

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

11.8.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.

- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

11.9 Security risks

11.9.1 The major security risks identified are:

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

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

12 Approach to pooling

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

12.2 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress.

12.3 At the time of preparing this Statement approximately 33% of the Fund's assets were invested through the London CIV, with a further 25% of assets invested in pooled passive vehicles which are deemed to be compliant with pooling regulations. Once the Fund's revised investment strategy has been fully implemented, with the commitments to the London CIV Infrastructure Fund and London CIV Renewables Fund being fully drawn, the Fund will have 74.5% of its assets pooled.

12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments. These investments are in a 'winding down' phase, with no further commitments being made to the asset class.

12.5 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. The governance structure of the London CIV includes a Shareholder Committee which acts on behalf of the Shareholders as a consultative body. It comprises of 12 Committee Members made up of 8 Local Authority Committee Chairs (or Leaders of London Local Authorities), 4 Local Authority Treasurers and the Chair of the Board of London CIV. It also comprises of two Non-Executive Directors and as two further nominated observers, a Trade Union representative and a Local Authority Treasurer.. In addition, the London CIV hosts an AGM each year and a general meeting to approve the CIV's budget. The Fund attends these meetings with the Chair of the Pension Committee representing the Fund.

12.6 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

13 Social, environmental and governance considerations

13.1 As considered earlier, the Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.

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

13.3 More recently, the Committee has taken steps to reduce its carbon exposure, through transferring the Fund's passive global equity mandate to a passive low carbon global equity mandate. In addition, the investments into the London CIV Sustainable Equity Fund and the London CIV Renewable Infrastructure Fund are have been made in consideration of the Fund's environmental, social and governance approach. The Committee are considering the most appropriate approach to monitor the Fund's carbon exposure and other climate-risk related considerations.

13.4 All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which they invest. Further, it expects its managers to follow good practice and use their influence as major institutional investors and long term stewards of capital to promote good practice in companies in which they invest and markets to which the Fund is exposed.

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

13.6 The Council expects its managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.

13.7 Each of the Fund's investment managers will be asked annually:

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

The responses to these queries will be made available on the Fund's website

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

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

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

13.11 The Fund has developed a Responsible Investment Policy which sets out in greater detail its approach on ESG issues.

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

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

14.2 The Council sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance. The Fund is a member of the Local Authority Pension Fund Forum and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

14.3 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality with the objective of preserving and enhancing long term shareholder value.

14.4 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so.

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

14.6 Any investments the Fund makes through the London CIV will be covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the Local Authority Pension Fund Forum directions.

15 Stewardship

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

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

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

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

Investment Consultant Objectives

Aon’s comments

This paper provides the agreed objectives and some commentary, where appropriate, on the actions completed by Aon to meet these objectives over 2022.

Background

On 10 June 2019, the Competition & Markets Authority ("CMA") introduced new duties for 'Pension Scheme Trustees' (whose definition now includes Local Government Pension Scheme (LGPS) Committees) via an Order which took effect from 10 December 2019. One of the newly introduced duties was for Committees to set objectives for their Investment Consultant ("IC").

In November 2019 the Committee agreed a set of objectives against which they would assess Aon for the year to 10 December 2020.

The regulatory requirement was to have these IC Objectives in place, which has been met. However, we also believe it is best practice to periodically review the objectives themselves to ensure they reflect the Committee’s beliefs, and also assess Aon’s performance against them.

This document provides a reminder of the agreed objectives in place, in addition to commentary, where appropriate, on actions completed by Aon to meet these objectives for the one-year period to 10 December 2022.

The Committee should also consider whether the objectives remain appropriate for Aon for the 2022/23 annual period or whether changes are needed to better assess Aon's performance.

Why bring you this note?

To aid Committee’s assessment of Aon’s performance against the agreed Investment Consultant objectives and to determine whether the objectives remain appropriate for the next period.

Next steps

- Review Aon’s commentary
- Determine whether any changes are required for the objectives

Prepared for: The Pension Policy & Investment Committee ("the Committee")
Prepared by: Aon
Date: 23 February 2023

1. Strategy

A	The IC, Aon, will help the Committee formulate and understand their collective investment beliefs.
B	The IC will support the Committee in determining the composition of the strategic asset allocation and will help the Committee build a suitably diversified portfolio to meet its investment objectives.
C	The IC will support the Committee with respect Responsible Investment (RI) and Stewardship matters.

Aon actions and comments

- Discussed the Committee’s Responsible Investment beliefs and engagement framework for implementing a Net Zero target at the October 2022 Responsible Investment workshop.
- Proposed a Net Zero engagement framework which included sending a Responsible Investment questionnaire to the Fund’s managers and collating responses to enable the Committee to set achievable short-term and specific targets.
- Drafted a Responsible Investment beliefs document to formally document the Committee’s beliefs.
- The Committee and Officers are provided with a quarterly Investment Dashboard which outlines the performance of the Fund on a quarterly and annual basis, with long-term performance periods included in the more detailed quarterly Investment Report provided to the Officers.
- Strategy review scheduled in early 2023 to review the Fund’s investment portfolio.
- Presented ESG dashboard to the Committee, which provided detailed ESG information on holdings (including comparison on carbon emissions and Aon’s ESG ratings). Access to the Committee provided to the data through portal login.

2. Implementation and LGPS Pooling

A	The IC will work alongside Members, Officers and the London CIV to develop / provide suitable investment solutions for the Fund.
b	The IC will assist the Members and Officers with understanding the offerings provided by the London CIV.
c	Where required, the IC will support the Officers with any asset transitions and help to effectively plan for, and mitigate, the key risks associated with transitioning assets (e.g. out of market risk).

Aon actions and comments

- Worked closely with Officers to ensure the Committee are regularly informed of key developments and updated offerings on the London CIV platform.
- Provided detailed performance analysis and recommendations in relation to Longview, the equity manager invested through the London CIV’s Equity Focus Fund, after a protracted period of poor performance.
- Provided advice and next steps on redemption of LaSalle property fund.
- Provided advice on rebalancing of the Fund’s portfolio to strategic allocation, considering Aon’s views and timing of transitions.

3. Monitoring

a	The IC will keep the Members and Officers updated, on a timely basis, of any material developments with any of the Fund's investment managers held outside the London CIV.
b	The IC will provide sufficient, clear and accurate monitoring of the Fund's asset allocation vs. strategic target and provide advice on rebalancing where appropriate.

Aon actions and comments

- The Committee and Officers are provided with a Quarterly Investment Dashboard which outlines the performance of the Fund on a quarterly and annual basis, alongside key market metrics such as yields. The Officers also receive a longer report on a quarterly basis with manager performance commentary.
- The Fund's relative asset allocation (vs strategic benchmarks) is provided and discussed on a quarterly basis.
- Produced Economic and Market Updates at Committee meetings that provide an overview of key market developments and Aon's latest investment outlook views.
- Updates and advice on developments to any of the Fund's investment managers are communicated to the Officers and Committee through quarterly monitoring reports and 'Flash' reports. This includes updates on any managers also held through the London CIV.

4. Compliance

a	The IC will provide advice on the appropriate changes to the Fund's Investment Strategy Statement following any changes to Investment Strategy (or at least once every three years).
b	The IC will keep the Members and Officers informed of any changes to relevant legislation and meet the Committee's investment training requirements. This should include any best practice initiatives.

Aon actions and comments

- Relevant regulatory updates provided at Committee meetings.
- Discussed relevant regulation at the Responsible Investment workshop in October 2022 and how it can help the Fund in its net zero ambition.
- Advice to be provided on update to Investment Strategy Statement following 2023 Investment strategy review.

5. Client servicing and relationship management

a	The IC will produce investment reports, briefing papers and investment advice in good time ahead of Committee meetings.
b	The IC will respond to email requests and voicemails on a timely basis.
c	The IC will provide advice in a clear and concise manner, limiting the use of jargon and ensuring that the Members and Officers understand the key messages.

Aon actions and comments

- Market updates are provided at quarterly meetings along with relevant thought pieces from Aon's asset allocation team on market developments.
- Regular communications with Officers both ahead of and post every Committee meeting to ensure alignment on agenda items, papers and meeting feedback.
- Clearly communicated changes to Aon’s client service team in advance of any departure date and implemented an overlapping working period between those departing (Joseph Peach) and those incoming (Max Meikle), to ensure no lapses in client knowledge and quality of delivery of client work.

Colin Cartwright
Partner
0207 086 9044
Colin.cartwright@aon.com

Max Meikle
Investment Consultant
0207 086 1042
Max.meikle.2@aon.com

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