

# London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the  
year ended 31 March 2017



*Harrow***COUNCIL**  
LONDON

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## INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund ('the Fund') for the financial year to 31 March 2017. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Consulting Actuary on page 48.

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

During 2016-17, all the major asset classes, particularly global equities, performed well and the Fund's overall investment return was 22.4%

The net assets of the Fund as at 31 March 2017 were £806.6m compared to £661.0m as at 31 March 2016. The Fund is ranked in the top quarter of the local authority annual league table of investment returns for the year.



**Dawn Calvert - CPFA**  
Director of Finance  
28 September 2017



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

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 16 to 46

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

As explained more fully in the Statement of the Director of Finance's Responsibilities *the Director of Finance* is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the *Pension Fund Annual Report* with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Harrow, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

## **Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Harrow for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## **Matters on which we are required to report by exception**

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

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

We have nothing to report in respect of these matters.

**Andrew Sayers**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, Canary Wharf, London, E14 5GL

29 September 2017



## **SCHEME MANAGEMENT AND ADVISORS**

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

## GOVERNANCE ARRANGEMENTS

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

The Pension Fund Committee has the following terms of reference:

- 1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- 2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- 3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- 4) to establish a strategy for the disposition of the pension investment portfolio;
- 5) to appoint and determine the investment managers' delegation of powers of management of the fund;
- 6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers);
- 7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:

<http://www.harrow.gov.uk/www2/mqCommitteeDetails.aspx?ID=1297>

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

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



## INVESTMENT POLICY AND PERFORMANCE

### Investment Market Commentary (provided by Aon Hewitt Limited, April 2017)

Global equities rebounded strongly following a tumultuous start to 2016, with the MSCI AC World Index returning 17.0% over 12 months in local currency terms. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump's win in the US presidential election further boosted optimism in the US economy towards the end of the year. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in Q1 2017.

As widely expected after Trump's win, the US Federal Reserve raised the target federal funds rate by 25bps to 0.50-0.75% in December. A further 25bps hike to 0.75-1.00% was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank and the Bank of Japan all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing.

Commodity prices recovered from 2016 lows over the period. The price of Brent crude oil moved higher as global growth prospects improved and gathered further pace upon OPEC's decision to cut production late in 2016. However, the swift increase in supply from US shale oil producers in response to the higher oil price drove US inventories higher which kept a cap on oil prices. Other commodities also rallied over the period as supply/demand conditions improved.

UK gilt yields fell dramatically up until the summer of 2016, with an acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets.

Sterling depreciated sharply on the back of the EU referendum result and renewed monetary easing. Consequently, the MSCI All Country World index returned a huge 32.2% in sterling terms. The US dollar, on the other hand, appreciated on a trade-weighted basis.

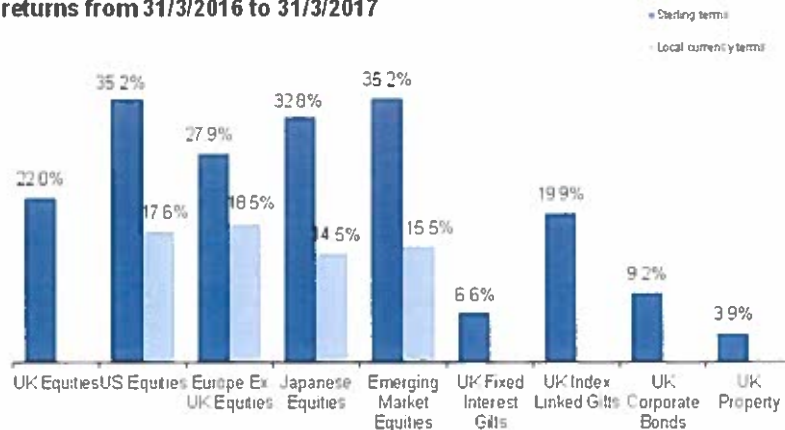
UK investment grade corporate bond spreads narrowed by 34bps to end the first quarter of 2017 at 128bps following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.

UK property returns remained positive over the period despite concerns over the impact of Brexit on the commercial real estate market. Capital values have recovered but remain below pre-Brexit levels. The IPD Monthly Index returned 3.9% over the 12 month period to March 2017.

UK equities rose, posting a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks.

US equities outperformed other regions in sterling terms (35.2%). Macroeconomic data was positive especially in the second half of 2016, whilst prospects of fiscal spending under the new US administration bolstered the equity market. A strong earnings season in early 2017, especially for financials, was also supportive. Unhedged returns were boosted by US dollar strength as US monetary policy tightened.

**Index returns from 31/3/2016 to 31/3/2017**



Source Datastream/MPD

## Investment Policy

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

The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective, 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.

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

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

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

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

In the light of the 2016 actuarial valuation and the review of the Funding Strategy Statement the Investment Strategy will be reviewed in detail during 2017-18.

The following table compares the actual asset allocation as at 31 March 2017 to the agreed allocation

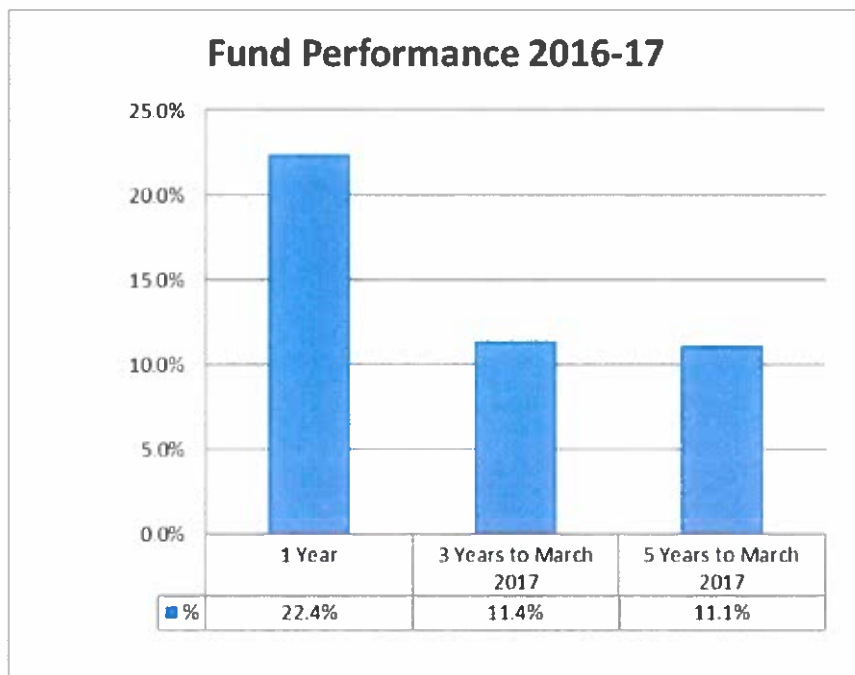
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	33	31
Developed world equities-active	21	21
Emerging markets equities-active	12	10
Fixed interest securities	10	10
Index-linked securities	3	3
Private equity	2	5
Cash	4	0
Forward currency contracts	0	0
Diversified growth funds	7	10
Pooled property	8	10
<b>Total</b>	<b>100</b>	<b>100</b>

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

## Fund performance

The Fund previously used State Street Global Services as its independent investment performance measurement consultant. However, State Street ceased to provide this service after 31 March 2016 and during 2016/17 the Fund has contracted with Pensions and Investment Research Consultants (PIRC) to provide a similar service and this is currently being developed.

Investment returns over 1, 3, and 5 years are shown below.



The Fund's return of 22.4% during 2016-17 was due to positive returns from all its investments and in particular to outstanding performance from the global equities and UK bonds mandates.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

The fund has been in the top third of the 61 funds included in the PIRC benchmark for 1, 3 and 5 years performance.

## STATEMENTS AND PUBLICATIONS

### **Governance Compliance Statement**

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 7 March 2017 and can be found as Appendix 1.

### **Communications Policy Statement**

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 7 March 2017 and can be found as Appendix 2.

### **Local Government Pension Scheme Guide**

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

### **Investment Strategy Statement**

Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

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

The current Statement agreed by the Pension Fund Committee on 7 March 2017 can be found as Appendix 4.

### **Funding Strategy Statement**

Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

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

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement agreed by the Pension Fund Committee on 7 March 2017 can be found as Appendix 5.

## **RISK MANAGEMENT**

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

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

### **Governance and Regulatory Risk**

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

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

### **Sponsor Risk**

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

### **Investment Risk**

The Fund is invested in a range of asset classes as detailed in Note 14. This is done in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk. The predominant asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

#### **Pricing Risk**

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments increased by 22% in 2016-17 compared to decreasing by 3% in the previous year. Most of the price changes relate to the value of global equities. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers and one passive manager and diversified growth funds by two managers to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

#### Liquidity Risk

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 10% of Harrow's Fund is in illiquid assets. This is deemed appropriate for a fund that continues to have a positive cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

#### Counterparty Risk

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

#### **Actuarial Risk**

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

#### **Operational Risk**

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

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

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

## CONTACTS

Registered Address	<p>Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Harrow, HA1 2XF</p>
Administration Enquiries	<p>Email address: <a href="mailto:Pension@harrow.gov.uk">Pension@harrow.gov.uk</a> Telephone Number: 020 8416 8087 Website: <a href="http://www.harrowpensionfund.org">www.harrowpensionfund.org</a></p>
Complaints and Advice	<p>The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB</p> <p>Telephone Number: 0300 123 1047 Website: <a href="http://www.pensionsadvisoryservice.org.uk">www.pensionsadvisoryservice.org.uk</a></p> <p>The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW</p> <p>Telephone Number: 0345 6000707 Website: <a href="http://www.thepensionsregulator.gov.uk">www.thepensionsregulator.gov.uk</a></p> <p>The Pensions Ombudsman 11 Belgrave Road London SW1V 1RB</p> <p>Telephone Number: 0207 630 2200 Fax Number: 0207 821 0065</p> <p>Email: <a href="mailto:enquiries@pensions-ombudsman.org.uk">enquiries@pensions-ombudsman.org.uk</a> Website: <a href="http://www.pensions-ombudsman.org.uk">www.pensions-ombudsman.org.uk</a></p>
Tracing Service	<p>The Pension Tracing Service Tyneview Park Whitley Road Newcastle Upon Tyne NE98 1BA</p> <p>Telephone Number: 0800 122 3170 Website: <a href="http://www.gov.uk/find-lost-pension">www.gov.uk/find-lost-pension</a></p>



# STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

## The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the Financial Statements.

## The Director of Finance's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2017 and its income and expenditure for the year then ended.



**Dawn Calvert – CPFA**  
Director of Finance  
29 September 2017

# Harrow Pension Fund Account for the year ended 31 March 2017

2015/16		Notes	2016/17
£'000			£'000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(28,333)	Contributions	7	(29,938)
(5,839)	Transfers in from other pension funds	8	(2,659)
(261)	Other income		0
<b>(34,433)</b>			<b>(32,597)</b>
31,265	Benefits	9	31,789
3,239	Payments to and on account of leavers	10	1,832
0	Other Expenditure		18
<b>34,504</b>			<b>33,639</b>
	<b>Net (additions)/withdrawals from dealings with members</b>		
71			1,042
4,630	Management expenses	11	5,228
	<b>Return on investments</b>		
(10,425)	Investment income	12	(10,250)
19,568	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	(141,595)
<b>9,143</b>	<b>Net return on investments</b>		<b>(151,845)</b>
13,844	Net (increase)/decrease in the net assets available for benefits during the year		(145,575)
(674,845)	Opening net assets of the scheme		(661,001)
<b>(661,001)</b>	<b>Closing net assets of the scheme</b>		<b>(806,576)</b>

# Net Assets Statement as at 31 March 2017

31 March 2016	Notes	31 March 2017
£'000		£'000
<b>Investment assets</b>		
654,554	Investments	14
878	Derivative contracts	14
44	Cash with investment managers	14
<b>655,476</b>		<b>776,884</b>
11,485	Cash deposits	14
<b>666,961</b>		<b>807,798</b>
<b>Investment liabilities</b>		
<b>(7,266)</b>	Derivative contracts	14
<b>659,695</b>		<b>(2,256)</b>
2,069	Current assets	21
<b>(763)</b>	Current liabilities	22
<b>661,001</b>	<b>Net assets of fund available to fund benefits at the period end</b>	<b>806,576</b>

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

*D. Calvert*

**Dawn Calvert – CPFA**  
Director of Finance  
29 September 2017

# Notes to the Harrow Pension Fund

## Accounts for the year ended

### 31 March 2017

#### NOTE 1: DESCRIPTION OF FUND

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

##### a) General

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

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

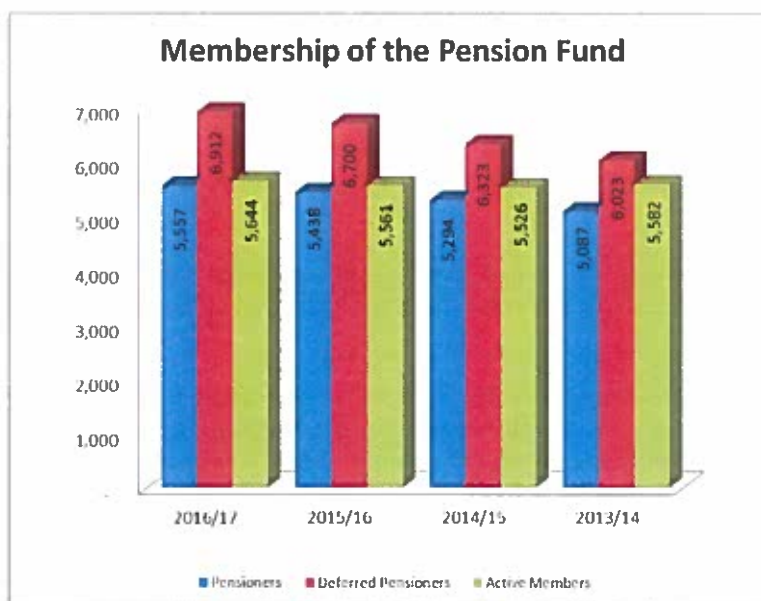
##### b) Membership

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

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff are automatically entitled to be members of the Fund.
- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

- There are 32 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5,179	5,749	4,109	15,037	83.01
Harrow College	Scheduled Body	148	274	147	569	3.14
St Dominic's College	Scheduled Body	35	30	57	122	0.67
Stanmore College	Scheduled Body	72	150	69	291	1.60
Alexandra School	Scheduled Body	1	8	22	31	0.17
Avanti House Free School	Scheduled Body	0	5	45	50	0.28
Avanti School Trust	Scheduled Body	0	0	5	5	0.03
Aylward Primary School	Scheduled Body	0	11	76	87	0.48
Bentley Wood School	Scheduled Body	7	65	65	137	0.76
Canons High School	Scheduled Body	7	48	99	154	0.85
Harrow High School	Scheduled Body	7	48	60	115	0.63
Hatch End School	Scheduled Body	15	132	76	223	1.23
Heathland and Whitefriars School	Scheduled Body	4	25	181	210	1.16
Krishna Avanti Primary School	Scheduled Body	0	10	18	28	0.15
Nower Hill High School	Scheduled Body	11	116	128	255	1.41
Park High School	Scheduled Body	4	55	96	155	0.86
Pinner High School	Scheduled Body	0	0	23	23	0.13
Rooks Heath College	Scheduled Body	9	53	114	176	0.97
St Bernadette's School	Scheduled Body	0	0	30	30	0.17
St Jerome School	Scheduled Body	0	0	8	8	0.04
Salvatorian College	Scheduled Body	6	47	40	93	0.51
The Jubilee Academy	Scheduled Body	0	10	17	27	0.15
NLCS	Community Admission Body	30	39	70	139	0.77
Birkin	Transferee Admission Body	0	2	7	9	0.05
Carillion Services	Transferee Admission Body	19	27	45	91	0.50
Chartwells	Transferee Admission Body	1	4	14	19	0.10
Engie (Cofely)	Transferee Admission Body	0	1	2	3	0.02
Govindas	Transferee Admission Body	0	0	5	5	0.03
Granary Kids	Transferee Admission Body	1	2	0	3	0.02
Linbrook Services	Transferee Admission Body	0	1	4	5	0.03
Sopria Steria	Transferee Admission Body	1	0	9	10	0.06
Taylor Shaw	Transferee Admission Body	0	0	3	3	0.02
	<b>Total</b>	<b>5,557</b>	<b>6,912</b>	<b>5,644</b>	<b>18,113</b>	<b>100</b>

### c) Funding

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

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2016 and showed that the Fund was 74% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 20.1% to 31.4% of pensionable pay with the largest employers paying between 21.4% and 22.5%.

### d) Benefits

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

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

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

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

## **NOTE 2: BASIS OF PREPARATION**

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position as at 31 March 2017. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards as amended for the UK public sector.

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

## **NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund account – Revenue Recognition**

#### **a) Contributions income**

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

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

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

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (see notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

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

#### **c) Investment income**

- i) Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.

## **Fund account – Expense items**

### **a) Benefits payable**

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

### **b) Taxation**

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

### **c) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

#### Administrative expenses

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

#### Oversight and governance costs

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

#### Investment management expenses

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

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

Where an investment manager's fee invoice has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2016/17.



## **Net Assets Statement**

### **a) Financial assets**

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

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in '*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)*'

### **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (see note 15)

### **c) Cash and cash equivalents**

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

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

### **d) Financial liabilities**

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

### **e) Actuarial present value of promised retirement benefits**

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

### **f) Additional Voluntary Contributions**

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

AVCs are not included in the accounts in accordance with section 4 (1)(b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

### **Accounting Standards Issued but not yet fully adopted**

The following accounting policy changes are not yet reflected in the 2016-17 Code of Practice. They are not therefore fully implemented in the Statement of Accounts:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of investment concentration

Neither of these changes are expected to have a material impact on the Pension Fund Accounts.

## **NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Pension Fund liability**

The net Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future contributions rates and underpin the Fund's most significant management policies.

### **Unquoted private equity investments**

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

## **NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> <li>• a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £110m</li> <li>• a 2% increase in assumed earnings inflation would increase the value of liabilities by approximately £19m</li> <li>• a 0.5% increase in Pension benefits would increase the liability by approximately £89m</li> </ul>
<b>Private equity (Note 16C)</b>	Private equity investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £19.3m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

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

The Fund is not aware of any such events.

## NOTE 7: CONTRIBUTIONS RECEIVABLE

### By category

2015/16		2016/17
£'000		£'000
(6,599)	<b>Employees' contributions</b>	(6,960)
	<b>Employers' contributions:</b>	
(16,763)	Normal contributions	(18,041)
(4,549)	Deficit recovery contributions	(4,614)
(422)	Pension strain contributions	(323)
(21,734)	<b>Total employers' contributions</b>	(22,978)
(28,333)		(29,938)

### By authority

2015/16		2016/17
£'000		£'000
(21,504)	Administering Authority	(22,957)
(5,667)	Scheduled bodies	(5,975)
(519)	Community admission body	(588)
(643)	Transferee admission bodies	(418)
(28,333)		(29,938)

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£'000		£'000
(3,304)	Group transfers	0
(2,535)	Individual transfers	(2,659)
(5,839)		(2,659)

## NOTE 9: BENEFITS PAYABLE

### By category

2015/16		2016/17
£'000		£'000
26,454	Pensions	27,044
4,074	Commutation and lump sum retirement benefits	4,074
737	Lump sum death benefits	671
<b>31,265</b>		<b>31,789</b>

### By authority

2015/16		2016/17
£'000		£'000
29,070	Administering Authority	29,592
1,508	Scheduled bodies	1,721
290	Community admission body	180
397	Transferee admission bodies	296
<b>31,265</b>		<b>31,789</b>

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£'000		£'000
60	Refunds to members leaving service	80
3,179	Individual transfers	1,752
<b>3,239</b>		<b>1,832</b>

## NOTE 11: MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
642	Administrative costs	646
3,452	Investment management expenses	3,996
536	Oversight and governance costs	586
<b>4,630</b>		<b>5,228</b>

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
3,427	Management fees	3,798
0	Performance related fees	0
25	Custody fees	72
0	Transaction costs	126
<b>3,452</b>		<b>3,996</b>

## NOTE 12: INVESTMENT INCOME

2015/16		2016/17
£'000		£'000
(6,030)	Private equity investments	(5,177)
(1,708)	Pooled property investments	(1,971)
(2,687)	Pooled investments - units trusts and other managed funds	(3,102)
<b>(10,425)</b>		<b>(10,250)</b>

## NOTE 13: EXTERNAL AUDIT COSTS

2015/16		2016/17
£'000		£'000
(21)	Payable in respect of external audit	(21)
<b>(21)</b>		<b>(21)</b>

## NOTE 14: INVESTMENTS

Market value 31 March 2016		Market value 31 March 2017
£'000		£'000
	<b>Investment assets</b>	
437,087	Pooled equities investments	531,614
86,978	Pooled bonds investments	100,883
56,287	Pooled alternative investments	58,420
53,481	Pooled property investments	64,409
150	Equity in London CIV	150
20,571	Private equity	19,341
878	Derivative contracts: forward currency	2,015
44	Cash with investment managers	52
<b>655,476</b>		<b>776,884</b>
11,485	Cash deposits	30,914
<b>666,961</b>	<b>Total investment assets</b>	<b>807,798</b>
	<b>Investment liabilities</b>	
(7,266)	Derivative contracts: forward currency	(2,256)
<b>(7,266)</b>	<b>Total investment liabilities</b>	<b>(2,256)</b>
<b>659,695</b>	<b>Net investment assets</b>	<b>805,542</b>

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	437,087	0	(46,492)	141,019	531,614
Pooled bonds investments	86,978	4,208	(1,134)	10,831	100,883
Pooled alternative investments	56,287	0	(414)	2,547	58,420
Pooled property investments	53,481	10,000	(378)	1,306	64,409
Equity in London CIV	150	0	0	0	150
Private equity	20,571	0	(350)	(880)	19,341
Derivative contracts: forward currency	(6,388)	19,375		(13,228)	(241)
	<b>648,166</b>	<b>33,583</b>	<b>(48,768)</b>	<b>141,595</b>	<b>774,576</b>
Cash with investment managers	44				52
Cash deposits	11,485				30,914
	<b>11,529</b>				<b>30,966</b>
<b>Net investment assets</b>	<b>659,695</b>				<b>805,542</b>

	Market value 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
<b>Investment assets</b>					
Pooled equities investments	449,979	0	(1,742)	(11,150)	437,087
Pooled bonds investments	86,377	4,162	(653)	(2,908)	86,978
Pooled alternative investments	59,535	0	(365)	(2,883)	56,287
Pooled property investments	50,562	0	(474)	3,393	53,481
Equity in London CIV	0	150	0	0	150
Private equity	22,954	0	(564)	(1,819)	20,571
Derivative contracts: forward currency	(2,649)	3,867	(3,405)	(4,201)	(6,388)
Cash re transition	268	0	(268)	0	0
	<b>667,026</b>	<b>8,179</b>	<b>(7,471)</b>	<b>(19,568)</b>	<b>648,166</b>
Cash with investment managers	869				44
Cash deposits	5,793				11,485
	<b>6,662</b>				<b>11,529</b>
<b>Net investment assets</b>	<b>673,688</b>				<b>659,695</b>

## NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2016		31 March 2017	
£'000		£'000	
<b>Pooled Funds</b>			
<b>UK</b>			
69,401	Fixed Interest Securities	Corporate	80,804
17,577	Index Linked Securities	Public Sector	20,079
53,481	Managed Funds - Property	Unit Trusts	64,409
<b>140,459</b>			<b>165,292</b>
<b>Global</b>			
219,424	Managed Funds - Equities	Unitised Insurance Policy	267,790
217,663	Managed Funds - Equities	Other	263,824
<b>437,087</b>			<b>531,614</b>
29,216	Managed Funds - Alternatives	Unit Trusts	29,324
27,071	Managed Funds - Alternatives	Other	29,096
<b>56,287</b>			<b>58,420</b>
20,571	Managed Funds - Private Equity	Other	19,341
<b>Other Funds</b>			
878	Derivatives		2,015
150	Equity in London CIV		150
44	Cash with investment managers		52
11,485	Cash Deposits		30,914
<b>666,961</b>	<b>Total Investment Assets</b>		<b>807,798</b>
<b>Investment Liabilities</b>			
(7,266)	Derivatives		(2,256)
<b>(7,266)</b>	<b>Total Investment Liabilities</b>		<b>(2,256)</b>
<b>659,695</b>	<b>Net Investment Assets</b>		<b>805,542</b>



## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2016	Percentage of Fund	Manager	Investment assets	Market value 31 March 2017	Percentage of Fund
£'000	%			£'000	%
53,481	8	Aviva	Pooled property	64,409	8
44	0	BlackRock	Cash with investment managers	52	0
69,401	11	BlackRock	Fixed interest securities	80,804	10
17,577	3	BlackRock	Index-linked securities	20,079	3
11,485	2	Cash Deposits		30,901	4
71,463	11	GMO	Emerging markets equities-active	94,156	12
27,071	4	Insight	Diversified growth fund	29,096	3
0	0	JP Morgan	Cash with investment managers	13	0
150	0	London CIV	UK equities-passive	150	0
75,499	11	Longview	Developed world equities-active	86,213	11
70,701	11	Oldfields	Developed world equities-active	83,455	10
20,571	3	Pantheon	Private equity	19,341	2
(6,388)	(1)	Record	Forward currency contracts	(241)	0
29,216	4	Standard Life	Diversified growth fund	29,324	4
219,424	33	State Street	Global equities-passive	267,790	33
<b>659,695</b>	<b>100</b>			<b>805,542</b>	<b>100</b>

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

Market value 31 March 2016	% of total fund	Investment assets	Market value 31 March 2017	% of total fund
£'000			£'000	
219,424	33	SSGA MPF All World Equity Index Sub-Fund	267,790	33
71,463	11	GMO Emerging Domestic Opportunities Equity Fund	94,156	12
75,499	11	Longview Partners - Global Pooled Equities FD K Class	86,213	11
70,701	11	Overstone Global Equity CCF (USD Class A1 Units)	83,455	10
69,401	11	BlackRock Institutional Bond Fund - Corp Bond 10 yrs A Class	80,804	10
53,481	8	Aviva Investors UK Real Estate Fund of Funds	64,409	8
<b>559,969</b>	<b>85</b>	<b>Total over 5% holdings</b>	<b>676,827</b>	<b>84</b>

## NOTE 14D: STOCK LENDING

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

The State Street lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

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

## NOTE 15: ANALYSIS OF DERIVATIVES

### Objectives and policies for holding derivatives

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

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

### Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	AUD	5,462	GBP	(3,370)		(36)
Up to one month	CAD	9,506	GBP	(5,740)		(38)
Up to one month	CHF	5,204	GBP	(4,199)		(38)
Up to one month	EUR	8,353	GBP	(7,235)		(88)
Up to one month	GBP	3,305	AUD	(5,646)		(140)
Up to one month	GBP	2,218	JPY	(317,300)		(61)
Up to one month	GBP	1,171	SEK	(13,093)		(3)
Up to one month	GBP	594	SGD	(1,059)		(12)
Up to one month	GBP	23,741	USD	(31,023)		(1,071)
Up to one month	HKD	43,584	GBP	(4,509)		(24)
Up to one month	JPY	1,877,000	GBP	(13,716)		(240)
Up to one month	NOK	2,648	GBP	(250)		(3)
Up to one month	NZD	190	GBP	(107)		(1)
Up to one month	SEK	13,093	GBP	(1,184)		(11)
Up to one month	SGD	950	GBP	(548)		(5)
Up to one month	USD	36,307	GBP	(29,252)		(212)
One to six months	GBP	11,985	JPY	(1,704,100)		(268)
One to six months	USD	1,595	GBP	(1,278)		(5)

Up to one month	AUD	184	GBP	(112)	0	
Up to one month	GBP	5,734	CAD	(9,506)	32	
Up to one month	GBP	4,161	CHF	(5,204)	1	
Up to one month	GBP	7,242	EUR	(8,353)	95	
Up to one month	GBP	4,574	HKD	(43,584)	89	
Up to one month	GBP	11,880	JPY	(1,559,700)	681	
Up to one month	GBP	248	NOK	(2,648)	2	
Up to one month	GBP	110	NZD	(190)	4	
Up to one month	GBP	4,296	USD	(5,284)	70	
Up to one month	SGD	109	GBP	(61)	1	
One to six months	GBP	3,356	AUD	(5,462)	36	
One to six months	GBP	5,735	CAD	(9,506)	38	
One to six months	GBP	3,697	CHF	(4,562)	38	
One to six months	GBP	6,873	EUR	(8,013)	2	
One to six months	GBP	4,508	HKD	(43,584)	23	
One to six months	GBP	250	NOK	(2,648)	3	
One to six months	GBP	107	NZD	(190)	1	
One to six months	GBP	1,187	SEK	(13,093)	11	
One to six months	GBP	548	SGD	(950)	4	
One to six months	GBP	29,476	USD	(36,307)	499	
Over six months	GBP	6,957	EUR	(8,013)	70	
Over six months	GBP	12,389	JPY	(1,704,100)	113	
Over six months	GBP	27,837	USD	(34,712)	202	
<b>Open forward currency contracts at 31 March 2017</b>					<b>2,015</b>	<b>(2,256)</b>
<b>Net forward currency contracts at 31 March 2017</b>						<b>(241)</b>
<b><u>Prior year comparative</u></b>						
<b>Open forward currency contracts at 31 March 2016</b>					<b>878</b>	<b>(7,266)</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>(6,388)</b>

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the most appropriate price available at the reporting date

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Pooled investments - property funds	Level 1	Closing bid price where bid and offer prices are published	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation (2012)</i>	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

## NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

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

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

### Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-)	Valuation at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10%	19,341	21,275	17,407

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	755,476	2,015	19,341	776,832
Financial liabilities at fair value through profit and loss	0	(2,256)	0	(2,256)
<b>Net Investment asset</b>	<b>755,476</b>	<b>(241)</b>	<b>19,341</b>	<b>774,576</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	633,983	878	20,571	655,432
Financial liabilities at fair value through profit and loss	0	(7,266)	0	(7,266)
<b>Net Investment asset</b>	<b>633,983</b>	<b>(6,388)</b>	<b>20,571</b>	<b>648,166</b>

## NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

There have been no transfers during 2016/17

## NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period	2016/17							
	Market Value 1 April 2016	Transfers into level 3	Transfers out of level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	20,571	0	0	0	(350)	(880)	0	19,341



## NOTE 17: FINANCIAL INSTRUMENTS

### NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
437,087	0	0	531,614	0	0
86,978	0	0	100,883	0	0
56,287	0	0	58,420	0	0
53,481	0	0	64,409	0	0
150	0	0	150	0	0
20,571	0	0	19,341	0	0
878	0	0	2,015	0	0
0	13,281	0	0	32,028	0
0	317	0	0	312	0
<b>655,432</b>	<b>13,598</b>	<b>0</b>	<b>776,832</b>	<b>32,340</b>	<b>0</b>
<b>Financial liabilities</b>					
(7,266)	0	0	(2,256)	0	0
0	0	(763)	0	0	(340)
<b>(7,266)</b>	<b>0</b>	<b>(763)</b>	<b>(2,256)</b>	<b>0</b>	<b>(340)</b>
<b>648,166</b>	<b>13,598</b>	<b>(763)</b>	<b>774,576</b>	<b>32,340</b>	<b>(340)</b>
<b>661,001</b>			<b>806,576</b>		
<b>Grand Total</b>					

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2016		31 March 2017
£'000		£'000
	<b>Financial assets</b>	
(15,367)	Fair value through profit and loss	154,823
0	Loans and receivables	0
	<b>Financial liabilities</b>	
(4,201)	Fair value through profit and loss	(13,228)
0	Financial Liabilities at amortised cost	0
(19,568)	<b>Total</b>	<b>141,595</b>

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

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

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

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

### Market risk

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

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

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



### Price risk

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

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

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

Assets type	Potential market movements (+/-)
Total equities	10.00%
Fixed interest & index linked securities	9.50%
Alternative investments	6.30%
Pooled property investments	2.80%
Cash and equivalents	0.00%

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

Asset type	Value as at 31 March 2017 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Investment portfolio assets:</b>				
Total equities	551,105	10.00	606,216	495,995
Fixed interest & index linked securities	100,883	9.50	110,467	91,299
Alternative investments	58,420	6.30	62,100	54,740
Pooled property investments	64,409	2.80	66,212	62,606
Derivative contracts: net forward currency	(241)	0.00	(241)	(241)
<b>Total</b>	<b>774,576</b>		<b>844,754</b>	<b>704,399</b>

Asset type	Value as at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Investment portfolio assets:</b>				
Total equities	457,808	10.07	503,909	411,707
Fixed interest & index linked securities	86,978	9.07	94,867	79,089
Alternative investments	56,287	7.36	60,430	52,144
Pooled property investments	53,481	2.37	54,748	52,214
Derivative contracts: net forward currency	(6,388)	0.00	(6,388)	(6,388)
<b>Total</b>	<b>648,166</b>		<b>707,566</b>	<b>588,766</b>

### *Interest rate risk*

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 and the impact of a 1% movement in interest rates are as follows:

<b>Assets exposed to interest rate risk</b>	<b>Carrying amount as at 31 March 2017</b>	<b>Potential movement on 1% change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	30,966	0	30,966	30,966
Fixed interest securities	80,804	808	81,612	79,996
<b>Total change in assets available</b>	<b>111,770</b>	<b>808</b>	<b>112,578</b>	<b>110,962</b>

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

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

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

### *Currency risk*

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

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 5.56%

A 5.56% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2017	Change to net assets	
		+5.56%	-5.56%
	£'000	£'000	£'000
Overseas Equities	480,403	507,113	453,693

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

### Credit risk

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

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

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

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

The Fund's cash holding at 31 March 2017 was £31.0m (31 March 2016: £11.5m). This was held with the following institutions.

Summary	Balances at 31 March 2017	Balances at 31 March 2016
	£'000	£'000
<b>Bank accounts</b>		
Royal Bank of Scotland	30,901	10,048
JP Morgan	13	1,437
BlackRock	52	44
	<b>30,966</b>	<b>11,529</b>

### **Liquidity risk**

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

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

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2017 the value of illiquid assets was £83.7m, which represented 10% of the total Fund assets (31 March 2016: £74.1m, which represented 11% of the total Fund assets).

All financial liabilities at 31 March 2017 are due within one year.

### **Refinancing risk**

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

## **NOTE 19: FUNDING ARRANGEMENTS**

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation takes place as at 31 March 2019.

The key elements of the funding policy are:

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

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

At the 2016 actuarial valuation, the Fund was assessed as 74% funded (70% at the March 2013 valuation). This corresponded to a deficit of £228m (2013 valuation: £234m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2020.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report on the Fund's website.

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

## Financial assumptions

Other financial assumptions	2016	2013
	%	%
Price inflation (CPI)	2.2	2.5
Salary increases	2.4	3.8
Pension increases	2.2	2.5
Gilt based discount rate	2.2	3.0
Funded basis discount rate	3.8	4.6

## Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% per annum.

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

	Male	Female
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45)	24.0 years	26.4 years

## Commutation assumption

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

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

31 March 2016		31 March 2017
£m		£m
(933)	Present value of promised retirement benefits	(1,102)
594	Fair value of scheme assets	733
<b>(339)</b>	<b>Net Liability</b>	<b>(369)</b>

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

## IAS19 Assumptions used

	2016/17	2015/16
	% pa	% pa
Inflation/pensions increase rate assumption	2.4	2.2
Salary increase rate	2.7	3.7
Discount rate	2.5	3.5

## NOTE 21: CURRENT ASSETS

31 March 2016 £'000		31 March 2017 £'000
	<b>Debtors:</b>	
297	Contributions due - employers	142
20	Sundry debtors	170
1,752	Cash owed to Fund	1,062
<b>2,069</b>		<b>1,374</b>

## Analysis of debtors

31 March 2016 £'000		31 March 2017 £'000
0	Central Government bodies	12
1,752	Other local authorities	1,062
4	NHS bodies	4
297	Scheduled/Admitted bodies	142
16	Other entities and individuals	154
<b>2,069</b>		<b>1,374</b>

## NOTE 22: CURRENT LIABILITIES

31 March 2016		31 March 2017
£'000		£'000
(167)	Sundry creditors	(202)
(430)	Transfer values payable (leavers)	0
(166)	Benefits payable	(138)
<b>(763)</b>		<b>(340)</b>

### Analysis of creditors

31 March 2016		31 March 2017
£'000		£'000
(15)	Central government bodies	(7)
(431)	Other local authorities	0
(317)	Other entities and individuals	(333)
<b>(763)</b>		<b>(340)</b>

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.43m were paid directly to the providers during the year (2015/16: £0.31m)

Market value 31 March 2016		Market value 31 March 2017
£'000		£'000
1,233	Prudential Assurance	1,382
741	Clerical Medical	667
237	Equitable Life Assurance Society	239
<b>2,211</b>		<b>2,288</b>

## NOTE 24: AGENCY SERVICES

There were no payments of this type



## NOTE 25: RELATED PARTY TRANSACTIONS

### Harrow Council

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

The Pension Fund has operated a separate bank account since April 2011. However to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account and these transaction are settled on a monthly basis.

31 March 2016		31 March 2017
£'000		£'000
(16,351)	Employer's Pension Contributions to the Fund	(17,514)
853	Administration expenses paid to the Council	826
1,752	Cash held by the Council	1,062

### Governance

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

## NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is the Councils' Director of Finance (S151 Officer). During 2015-16 the Director of Human resources also fell into this category. Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2016		31 March 2017
£'000		£'000
43	Short-term benefits	35
0	Termination benefits	21

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2017 totalled £3.0m (31 March 2016: £2.9m).

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

## NOTE 27: CONTINGENT ASSETS

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





## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Harrow Pension Fund ("the Fund")

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

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

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

### Present value of promised retirement benefits

Year ended	31 March 2017	31 March 2016
Active members (£m)	440	496
Deferred members (£m)	250	169
Pensioners (£m)	497	351
<b>Total (£m)</b>	<b>1,187</b>	<b>1,016</b>

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the London Borough of Harrow only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £171m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £13m.



#### Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.7%	3.7%
Discount Rate	2.6%	3.5%

#### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.4 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

#### Commutation assumptions

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

#### Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	89
0.5% p.a. increase in the Salary Increase Rate	2%	19
0.5% p.a. decrease in the Real Discount Rate	9%	110

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

#### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by -

Gemma Sefton FFA

25 April 2017

For and on behalf of Hymans Robertson LLP

# **Governance Compliance Statement**

**London Borough of Harrow Pension Fund**

**March 2017**

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## Introduction

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

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

Treasury and Pension Fund Manager  
London Borough of Harrow  
3<sup>rd</sup> Floor, West Wing  
Civic Centre  
Station Road  
Harrow  
HA1 2XF  
TEL: 020 8424 1450

## Regulatory Framework

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

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

- “... (a) whether the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;*
- (b) if the authority does so—*
- (i) the terms, structure and operational procedures of the delegation,*
  - (ii) the frequency of any committee or sub-committee meetings,*
  - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and, if so, whether those representatives have voting rights;*
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying, and*
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).”*

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

## Delegated Functions

The Council has delegated its functions to the following:

- Pension Fund Committee
- Officer Sub – Group
- Director of Finance
- Chief Officers

## Pension Fund Committee

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

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

- 1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;
- 2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- 3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- 4) to establish a strategy for the disposition of the pension investment portfolio;
- 5) to appoint and determine the investment managers' delegation of powers of management of the fund;
- 6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000

## GOVERNANCE COMPLIANCE STATEMENT

(as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

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

### **Officer Sub – Group**

The Officer Sub – Group comprises the Director of Finance and the Director of Legal and Governance Services. Other senior officers attend meetings as required.

The Sub-Group meets on an ad-hoc basis and has the responsibility to determine all early retirement applications in line with Council policy

### **Director of Finance**

#### **Pension Fund Investment**

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

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.
- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.
- To enter into under-writing agreements.
- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended to ensure the need for diversification and stability of investments



## Chief Officers

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

## Urgent Non-Executive Decisions and Minor Matters

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

## Safeguards

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

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

## Pension Board

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

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

## GOVERNANCE COMPLIANCE STATEMENT

In particular the Board oversees:

- the effectiveness of the decision making process
- the direction of the Fund and its overall objectives
- the level of transparency in the conduct of the Fund's activities
- the administration of benefits and contributions

Under the provisions of the Act the Board must include equal numbers of employer and member representatives and it is made up as follows:

- Employer representative – London Borough of Harrow
- Employer representative – Scheduled and admitted bodies
- Scheme members' representative – Active members
- Scheme members' representative – Pensioners
- Independent member.

**GOVERNANCE COMPLIANCE STATEMENT**

**Statement of compliance to guidance**

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

**Principle A – Structure**

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

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

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

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

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

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

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, but there is no representation of other employers or scheme members. Two trade unions have observer status. The Pension Board includes a representative of non-Council employers, active scheme members and pensioner members and the views of the Board are reported to the Committee.

**Principle B – Representation**

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

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

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

	Not Compliant*			Fully Compliant	
a)				√	
b)					√

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

The Pension Fund Committee comprises representatives of the main employer, London Borough of Harrow, two independent advisers and an expert investment adviser but no representation for other employers or scheme members. Two trade unions have observer status.

**Principle C – Selection and role of lay members**

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

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

	Not Compliant*			Fully Compliant	
a)					√
b)					√

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

**GOVERNANCE COMPLIANCE STATEMENT**

**Principle D – Voting**

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

	Not Compliant*			Fully Compliant	
a)					√

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

**Principle E – Training/Facility time/Expenses**

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

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

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

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

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

The Council policy is that the Pension Fund Committee are aware of the six areas of knowledge and skills relating to the LGPS which CIPFA has identified as being the core technical requirements for those involved in decision making. They are frequently advised of training opportunities and are advised of facility time and the reimbursement of expenses.

A training log for all elected members is maintained.

Included in the Terms of Reference for the Pension Board is:

*Following appointment each member of the Board should be conversant with:*

- *The legislation and associated guidance of the LGPS*
- *Any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund*

**GOVERNANCE COMPLIANCE STATEMENT**

The Administering Authority will provide a training programme which all Committee and Board members will be encouraged to attend

**Principle F – Meetings (frequency/quorum)**

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

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

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

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

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

Key stakeholders including non-Council employers and the trade unions are consulted on an ad hoc basis eg actuarial valuation, Investment Strategy Statement, Funding Strategy Statement

**Principle G – Access**

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

	Not Compliant*				Fully Compliant
a)					√

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

GOVERNANCE COMPLIANCE STATEMENT

**Principle H – Scope**

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

	Not Compliant*			Fully Compliant	
a)					√

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

**Principle I – Publicity**

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

	Not Compliant*			Fully Compliant	
a)					√

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

Please use this space if you wish to add anything to explain or expand on the ratings given above





# **Communications Policy Statement**

**London Borough of Harrow Pension Fund**

March 2017

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## Introduction

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

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

- Alexandra School
- Avanti House Free School
- Aylward Primary School
- Bentley Wood School
- Canons High School
- Carillion Services
- Engie
- Govindas
- Harrow College
- Harrow High School
- Hatch End School
- Heathland and Whitefriars School
- Krishna Avanti Primary School
- Linbrook Services
- North London Collegiate School
- Nower Hill High School
- Park High School
- Pinner High School
- Rooks Heath College
- Salvatorian College
- St Bernadette's Catholic School
- St. Dominic's College
- St Jerome School
- Sopria Steria
- Stanmore College
- The Jubilee Academy
- Wates

And, at 31 March 2016 the Fund had 17,699 scheme members (5,561 active members, 6,700 deferred members and 5,438 pensioner members). The delivery of the benefits payable under the Local Government Pension Scheme involves communication with a number of interested parties. This Statement provides an overview of how we communicate and how we measure whether our communications are successful.

It is effective from 1 April 2017.

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

Lesley Freebody

Team Leader  
Pensions Team

Harrow Council  
3<sup>rd</sup> Floor, South Wing  
Civic Centre  
Station Road  
Harrow  
HA1 2XF

telephone: 0208 416 8087

email: [Lesley.freebody@harrow.gov.uk](mailto:Lesley.freebody@harrow.gov.uk)

## Regulatory Framework

This Statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provisions require the Council as the Administering Authority to:

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

- (a) members.*
- (b) representatives of members.*
- (c) prospective members and*
- (d) Scheme employers."*

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

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

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

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

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

## **Responsibilities and Resources**

Communications material is provided through the Pensions Team and validated through the Communications Unit. The Team write all internally produced communications including information published on the internet/intranet. The Team is also responsible for arranging all forums and meetings covered within this Statement. The Team report through the Council's management structure with ultimate responsibility for ensuring compliance with the Regulations resting with the Corporate Director – Resources and Commercial.

Printing documentation is carried out internally.

## Communication with key audience groups

### Our audience

The Pensions Team communicates with a number of stakeholders on an on-going basis. For the purpose of this Statement, the Team engages with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- scheme employers;
- union representatives;
- Elected Members;
- Pension Board;
- Pensions Team staff;
- local taxpayers and residents;
- other stakeholders / interested parties

In addition there are a number of other stakeholders with whom the Council communicates on a regular basis including Her Majesty's Revenue and Customs (HMRC), Department for Communities and Local Government (DCLG), Department of Works and Pensions (DWP), Pensions Advisory Service, solicitors, actuaries and other pension providers. The Council has also considered, as part of this policy, how it communicates/engages with these interested parties.

## How we communicate

### General communication

The Council has put in place a number of initiatives that will assist in moving towards the Government's e-gov agenda. However, pensions information, for the most part, is still delivered through paper based communications. The Council has developed alternative communications media (e.g. documents in Braille and large print, audio tapes, etc) to ensure that it caters for the needs of special groups. Additionally the Team utilises the Council's internet/intranet facilities and is developing both email and internet self-service facilities that will enable a gradual move away from paper communications and reduce communication costs.

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

Telephone calls are either routed through a dedicated direct dial number or, alternatively, through main Harrow contact centre and then onwards to one of the Pension Team's extensions.

### Branding

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

### Accessibility

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



## Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members as groups are:

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

In addition, as required, appropriate communications with individual members covering their own particular circumstances are arranged.

Our objectives are met by providing the following communications:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of distribution</b>	<b>Audience group (active, deferred or pensioner members or all members)</b>
Scheme Guide	Paper based and through Harrow's internet/intranet	At joining and at the time of major scheme changes	Post to home address, via scheme employers and online	Active members
Newsletters	Paper based and through Harrow's internet/intranet	Annually and ad hoc to ensure timely notification of major scheme changes	Post to home address and online	Separately for active, deferred and pensioner members
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's internet/intranet	Annually	Hard copy on request and online	All members

COMMUNICATIONS POLICY STATEMENT

Pension Fund Financial Statements Summary	Paper based and through Harrow's internet/intranet	Annually	Post to home address and online	All members
Annual Benefit Statements	Paper based	Annually	Post to home address	Active and deferred members
Fact sheets	Paper based and through Harrow's internet/intranet	Topic specific information sheets	Post to home address and online	Active and deferred members
Website – Harrow Intranet	Electronic	Continually available	Loaded for key communications	All members
One to one education sessions	Personal interview	On request	As requested	All members

**Explanation of communications**

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

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

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

**Pension Fund Financial Statements Summary** – A handy summary of the position of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details.

**Annual Benefit Statements** – For active members these include the current value of benefits to 31 March as well as the projected benefits at Normal Pension Age. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

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

**Harrow Intranet** – The intranet provides scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and Annual Report), frequently asked questions and answers, links to related sites and contact information.

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

## Policy on Communication with Prospective Members and their Employing Bodies

Our objectives with regard to communication with prospective members are:

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

The Pensions Team do not have immediate access to prospective members but the benefits of a defined benefits scheme are referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Our objectives are met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Overview of the LGPS - Guide	Paper based, and Internet	On commencing employment	Starter pack	New employees

### Explanation of communications

**Overview of the LGPS – Guide** - A brief guide that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Harrow's Pension Fund internet pages.

## Policy on Communication with Employing Bodies

Our objectives with regard to communication with employers are:

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

Our objectives are met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Employers Guide	Paper based and electronic file format	At joining and updated as necessary	Post , email and data storage medium	Main contact for all employers
Employers meeting	Meeting with key employing body personnel	Triennially	Meeting	Employing body management
Pension Fund Annual Report and Financial Statements	Paper based and through Harrow's intranet/internet	Annually	Internet	Employing body
FRS102 report	Electronic file format.	Annually	Data storage medium.	Employing body.
Service Level Agreement	Paper based and electronic file format.	Start of admission agreement and revised at Contract renewal	Hard copy post and data storage medium	Admitted body

## **Explanation of communications**

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

**Employers Meeting** – A formal seminar style event where the Pensions Team provide an update on the triennial actuarial valuation.

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

**FRS102 Report** – This is a national accounting standard that all authorities administering pension funds must follow. FRS102 requires an organisation to account for retirement benefits when it is committed to provide them, even if the actual provision will well in the future.

**Service Level Agreement** – A document that sets out, alongside the admission agreement, the duties and responsibilities of the Council and the employing body for the duration of the service contract.

## Policy on communication with Union Representatives

Our objectives with regard to communication with union representatives are:

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

Our objectives are met by providing the following communications:

<i>Method of communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
Consultation on strategy statements	Paper based and electronic	As and when required	Email or hard copy	Union observers on Pension Fund committee
Education sessions	Paper based and electronic	On request	Various	Union representatives
Pension Fund Committee meetings	Reports and meetings	In line with published Committee meeting cycle	Notification through Committee Services	Named union observers

### Explanation of communications

**Consultation papers** – documents dealing with key issues and developments relating to the LGPS and the Fund.

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

**Pension Fund Committee meetings** – formal meetings of Elected Members, attended by Council senior officers, investment managers, invited pensions specialists and union members.

## Policy on communication with Elected Members

Our objectives with regard to communication with Elected Members are:

- to ensure that Elected Members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.
- to seek Elected Member approval to the development or amendment of discretionary policies,
- to seek Elected Members approval to formal responses to government consultation in relation to the scheme

Our objectives are met by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Training sessions	Pension seminars	Following member elections or in a timely manner briefings to ensure Elected Members are aware all relevant aspects of the Scheme	LGPS specific seminars	All Elected Members but specifically the Pension Fund Committee.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Elected Members but specifically the Pension Fund Committee
Pension Fund Committee Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All members of the Pension Fund Committee
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	All Elected Members but specifically the Pension Fund Committee



**Explanation of communications**

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

**Briefing papers** – briefings highlight key issues and developments in the LGPS.

**Pension Fund Committee Meetings** – reports submitted to the Committee.

**Report and Verbal Briefing** – occasions when Members require briefing on forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

## Policy on communication with Pension Board

Our objective with regard to communication with the Pension Board is:

- to ensure that the Board members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.

Our objective is met by providing the following communications:

<i>Method of Communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
Training sessions	Pension seminars	Following the appointment / election of members of the Board or in a timely manner to ensure they are aware all relevant aspects of the Scheme	LGPS specific seminars	All Board Members.
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All Board members
Pension Board Meetings	Meeting	In line with the published Committee cycle.	Email or hard copy	All Board members

### Explanation of communications

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

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

**Pension Board Meetings** – reports submitted to the Board.

## Policy on communication with Pensions Team

Our objectives with regard to communication with Pensions Team staff are:

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

Our objectives are met by providing the following communications:

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

### Explanation of communications

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

**Staff meetings** - Informal training sessions which provide new and established staff with timely update on changes to pensions legislation or processes

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

## Policy on communication with tax payers and residents

Our objective with regard to communication with tax payers is:

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

Our objectives will be met by providing the following communications:

<i>Method of Communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
Reports/written response/electronic postings	Various	Reports published annually and when otherwise required in relation to general enquiries	Various	All Harrow tax payers and residents

### Explanation of communications

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

## Policy on communication with other stakeholders / interested parties

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

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

Our objectives will be met by providing the following communications:

<b><i>Method of Communication</i></b>	<b><i>Media</i></b>	<b><i>Frequency of Issue</i></b>	<b><i>Method of Distribution</i></b>	<b><i>Audience Group</i></b>
Pension Fund Valuation reports <ul style="list-style-type: none"> <li>• Rates and Adjustment Certificate</li> <li>• Revised Rates and Adjustment Certificate</li> <li>• Cessation valuations</li> </ul>	Electronic	Every three years	Email	DCLG, HMRC and all Scheme employers
New admission agreements	Hard copy/electronic format	As new employers are entered into the Fund	Post/electronic submission	New "admitted" bodies
Resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Email or post	Scheme member or his/her representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Email or post	As required

**Explanation of communications**

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

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

## Performance Measurement

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

### Timeliness

We will measure against the following target delivery timescales:

<b>Communication</b>	<b>Audience</b>	<b>Statutory delivery period</b>	<b>Target delivery period</b>
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 3 working days of joining
Annual Benefit Statements as at 31 March	Active members	On request	July each year
Telephone calls	All	Not applicable	All calls to be answered within 3 rings
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Within 5 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within 10 working days of relevant paperwork being received
Transfers in	Joiners/active members	Within two months of request	Within 10 working days of relevant paperwork being received
Issue of forms i.e. expression of wish	Active members	N/A	Within 3 days of joining the LGPS
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Financial Statements	All	Within two months of request	Within five working days

**Quality**

<i><b>Audience</b></i>	<i><b>Method</b></i>	<i><b>To consider</b></i>	<i><b>Notes</b></i>
Active and deferred members	Paper based survey with annual benefit statements	All services	Client can benchmark against published service targets.
All member types	Assessment against system report	Performance against task management pre-defined performance measures.	One task chosen each quarter from: <ul style="list-style-type: none"> <li>• retirements</li> <li>• new starts and transfers in</li> <li>• transfers out</li> <li>• deferred leavers</li> </ul>
Employers	Electronic	Scheduled / Admitted body specific issues	feedback

**Results**

The Pension Board receives reports on performance at each of its meetings.



## Review Process

Our Communications Policy Statement will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the Statement will always be available either from the Pensions Team at

Harrow Council  
3<sup>rd</sup> Floor, South Wing  
Civic Centre  
Station Road  
Harrow  
HA1 2XF

or on our internet site under [www.harrowpensionfund.org](http://www.harrowpensionfund.org)



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

### Employees in England and Wales

#### Highlights of the LGPS

##### The LGPS gives you:

##### **Secure benefits –**

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

##### **At a low cost to you –**

with tax-efficient savings.

##### **And your employer pays in too –**

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

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

##### **A secure pension –**

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

##### **Flexibility to pay more or less contributions –**

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

##### **Tax-free cash –**

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

##### **Peace of mind –**

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

### **Freedom to choose when to take your pension –**

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

### **Redundancy and Efficiency Retirement –**

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

### **Flexible retirement –**

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

## **The scheme**

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

### **What kind of scheme is it?**

The LGPS is a tax approved, defined benefit occupational pension scheme which was set up under the Superannuation Act 1972 (but, in the future, scheme rules will be made under the Public Service Pension Schemes Act 2013). The LGPS was contracted out of the State Second Pension scheme (S2P) until 5 April 2016; from 6 April 2016 the 'contracted out' status ceased to exist for all pension schemes due to the introduction of the single tier State Pension. The LGPS meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008. The amount of pension you earn in a **scheme year** is worked out each year and added to your **pension account**. The total amount of pension in your **pension account** is revalued at the end of each **scheme year** so your pension keeps up with the cost of living. The LGPS is very secure because the benefits are set out in law.

### **Who can join?**

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

If you start a job in which you are eligible for membership of the LGPS you will be brought into the scheme, if your contract of employment is for 3 months or more. If it is for less than 3 months and you are, or during that period become, an **Eligible Jobholder** you will be brought into the scheme from

the **automatic enrolment date** (unless your employer issues you with a postponement notice to delay bringing you into the scheme for up to a maximum of 3 months) or if your contract is extended to be for 3 months or more or you opt to join by completing an application form, you will be brought into the scheme from the beginning of the pay period after the one in which your contract is extended or you opt to join.

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

#### **How do I ensure that I have become a member of the LGPS?**

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

#### **Can I opt-out of the LGPS and re-join at a later date?**

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

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

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

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

If you opt out of the LGPS after meeting the 2 years **vesting period** you will have deferred benefits in the scheme and will generally have the same options as anyone leaving their job before retirement, except you cannot draw your deferred benefits unless you have left your job. Also, if you re-join the scheme you will not be permitted to join your deferred benefit with the **pension account** that will be created when you re-join the scheme. Instead, you will have two separate sets of pension benefits.

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

If you opt out of the LGPS then:

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

your employer will, if you subsequently become an **Eligible Jobholder** in that job, automatically enrol you back into the LGPS from the **automatic enrolment date**.

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

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

However, in any of the above cases, your employer can choose not to automatically enrol you if:

- you had opted out of the LGPS less than 12 months prior to the date you would have been automatically enrolled in the job, or
- notice to terminate employment has been given before the end of the period of 6 weeks beginning with what would have been automatically enrolled in the job, or
- your employer has reasonable grounds to believe that, on what would have been the date they would have automatically enrolled you, you hold Primary Protection, Enhanced Protection, Fixed Protection, Fixed Protection 2014, or Individual Protection 2014, Fixed Protection 2016 or Individual Protection 2016 (see the section on **Tax Controls and Your LGPS Benefits**), or
- you hold office as a director of the company by which you are employed,
- you are a member of a limited liability partnership (LLP), have earnings payable by the LLP but you are not treated for income tax purposes as being employed by the LLP.

### What do I pay?

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

Here are the pay bands and the rates that apply from April 2017.

<b>Contribution table 2017/18</b>	
<b>If your actual pensionable pay is:</b>	<b>You pay a contribution rate of:</b>
Up to £13,700	5.5%
£13,701 to £21,400	5.8%
£21,401 to £34,700	6.5%
£34,701 to £43,900	6.8%
£43,901 to £61,300	8.5%
£61,301 to £86,800	9.9%
£86,801 to £102,200	10.5%
£102,201 to £153,300	11.4%
£153,301 or more	12.5%

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

### Do I get tax relief?

As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your **pensionable pay**. There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the standard annual allowance of £40,000 (2017/18) you may have to pay a tax charge. Most people will not be affected by the annual allowance.

#### **Does my employer contribute?**

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

#### **Is there flexibility to pay less contributions?**

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

#### **Can I make extra contributions to increase my benefits?**

You can increase your benefits by paying additional contributions, known as Additional Pension Contributions (APCs), to buy extra LGPS pension, or by making payments to the scheme's **Additional Voluntary Contributions (AVC)** arrangement. Your pension fund can give you more information on these options. Contact details are at the end of this guide.

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

#### **What if I've been a member before and can now re-join the LGPS?**

If you rejoin the LGPS and you have deferred benefits in an LGPS fund in England or Wales (which you were awarded other than as a result of electing, on or after 11 April 2015, to opt out of membership of the scheme) your deferred benefits will normally be automatically joined with your new active **pension account**. If, for benefits that are normally automatically joined together, you want to retain separate deferred benefits then you must make such an election within 12 months of rejoining the scheme (or such longer period as your employer and pension fund may allow).

If you have deferred benefits in an LGPS fund in England or Wales which you were awarded as a result of electing, on or after 11 April 2015, to opt out of membership of the scheme, you cannot join those benefits with your new active **pension account**. They will remain as a separate deferred benefit.

If you rejoin the LGPS in England or Wales and have a deferred refund this **must** be joined with your new active **pension account**.

#### **What about any non-LGPS pension rights I have?**

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

#### **What if I'm already receiving an LGPS pension – will it be affected?**

If you are already drawing a pension from the scheme, some or all of which you built up before 1 April 2014, and you are re-employed in local government or by an employer who offers membership of the

LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. They will let you know whether your pension in payment is affected in any way.

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

## **Contribution Flexibility**

### **Flexibility to pay less**

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

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

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

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

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

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

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

### **Flexibility to pay more**

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



## You can improve your retirement benefits by paying:

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

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

## Your Pension

Your LGPS benefits are made up of:

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

### How is my pension worked out?

Every year, you will build up a pension at a rate of  $1/49^{\text{th}}$  of the amount of **pensionable pay** (and **assumed pensionable pay**) you received in that **scheme year** if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). If during the **scheme year** you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on **relevant child related leave** or **reserve forces service leave** then, for the period of that leave, your pension is based on your **assumed pensionable pay** (other than during any part of **relevant child related leave** where the **pensionable pay** you received was higher than your **assumed pensionable pay**). The amount of pension built up during the **scheme year** is then added to your **pension account** and revalued at the end of each **scheme year** so your pension keeps up with the cost of living.

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

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

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

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

- an active member on 31 March 2012, and
- you are within 10 years of your protected **Normal Pension Age** on 1 April 2012, and

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

The underpin will not apply to you if you elect to opt out of the scheme before your protected **Normal Pension Age** or you wish to draw benefits from an age where you would have required employer consent to do so under the pre 1 April 2014 scheme (normally before age 60) or you leave the scheme with a deferred benefit and, at the date of leaving, you would have required your employer's consent to take payment of those benefits under the 1 April 2014 scheme (normally before age 60).

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

#### **What pensionable pay is used to work out the pension I build up after 31 March 2014?**

The amount of pension added into your **pension account** at the end of the **scheme year** is worked out using your **pensionable pay** which is the amount of pay on which you pay your normal pension contributions.

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

#### **Can I exchange part of my pension for a lump sum?**

You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £250,000 (2017/18 figure), or if you have previously taken payment of (crystallised) pension benefits, 25% of your remaining lifetime allowance. Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

#### **How is my pension worked out - an example**

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

Let's assume that the member joins the scheme on 1 April 2014, that their **pensionable pay** is £24,500 in **scheme year** 1 and their **pensionable pay** increases by 1% each year. The cost of living (revaluation adjustment) for the end of the scheme years ending 31 March 2015, 31 March 2016 and 31 March 2017 is 1.2%, -0.1% and 1% respectively. Let's assume that the cost of living (revaluation adjustment) for the following 2 years is 2% each year.

Scheme Year	Opening Balance	Pension Build up in Scheme Year <small>Pay/ Build up rate = Pension</small>	Total Account 31 March	Cost of Living Revaluation Adjustment	Updated Total Account
1 2014/15	£0.00	£24,500/ 49 = <b>£500</b>	£500	1.2% = £6	£500 + £6 = <b>£506</b>
2 2015/16	£506	£24,745/ 49 = <b>£505</b>	£1,011.00	-0.1% = -£1.01	£1,011.00 + - £1.01 = <b>£1,009.99</b>
3 2016/17	£1,009.99	£24,992.45/ 49 = <b>£510.05</b>	£1,520.04	1% = £15.20	£1,520.04 + £15.20 = <b>£1,535.24</b>
4 2017/18	£1,535.24	£25,242.37/ 49 = <b>£515.15</b>	£2,050.39	2% = £41.01	£2,050.39 + £41.01 = <b>£2,091.40</b>
5 2018/19	£2,091.40	£25,494.79/49 = <b>£520.30</b>	£2,611.70	2% = £52.23	£2,611.70 + £52.23 = <b>£2,663.93</b>

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

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

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

#### Taking AVCs as cash

If you pay *Additional Voluntary Contributions (AVCs)* via the LGPS you may elect to take all of your AVC fund as a tax-free lump sum if you draw it at the same time as your main LGPS benefits **provided**, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum doesn't exceed £250,000<sup>1</sup> (2017/18 figure).

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

## Retirement

### When can I retire and draw my LGPS pension?

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

<sup>1</sup>Or if you have previously taken payment of (crystallised) pension benefits the total lump sum should not exceed 25% of your remaining lifetime allowance

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

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

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

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

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

#### **Will my pension be reduced if I voluntarily retire before my Normal Pension Age?**

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

**If you were a member of the LGPS at any time between 1 April 1998 and 30 September 2006,** some or all of your benefits paid early could be protected from the reduction if you have rule of 85 protection.

#### **What if I lose my job through redundancy or business efficiency?**

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

#### **What happens if I have to retire early due to ill health?**

If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

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

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

#### **What if I want to have a gradual move into retirement?**

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

#### **What if I carry on working after my Normal Pension Age?**

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

#### **How does my pension keep its value?**

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

### **Protection for your family**

#### **What benefits will be paid if I die?**

If you die in service as a member of the LGPS the following benefits are payable:

- A lump sum death grant of three times your **assumed pensionable pay**.
- Pensions for **eligible children**.
- A spouse's (from an opposite sex or same sex marriage), **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's** pension. For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (i.e. 1/49th or, for any period you were in the 50/50 section of the scheme, 1/98th) of the **pensionable pay** (or **assumed pensionable pay** where applicable) you received during that year. The pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is calculated on a different proportion i.e. 1/160<sup>th</sup> of your **pensionable pay** (or **assumed pensionable pay** where applicable) to which is added 49/160<sup>ths</sup> of the amount of any pension credited to your pension account following a transfer of pension rights into the scheme, plus an amount equal to 1/160<sup>th</sup> of your **assumed pensionable pay** for each year of membership you would have built up from your date of death to your **Normal Pension Age**. For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or **civil partner** is equal to 1/160<sup>th</sup> of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based. For an **eligible cohabiting partner** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's** pension).

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

**If you die after retiring on pension**, a spouse's (from an opposite sex or same sex marriage), **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's** pension and pensions for **eligible children** are payable. For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (i.e. 1/49<sup>th</sup> or, for any period you were in the 50/50 section of the scheme, 1/98<sup>th</sup>) of the **pensionable pay** (or **assumed pensionable pay** where applicable) you received during that year (plus 1/49<sup>th</sup> of **assumed pensionable pay** for any enhancement given if retirement had been on ill health grounds). The pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is calculated on a different proportion i.e. 1/160<sup>th</sup> of the **pensionable pay** (or **assumed pensionable pay** where applicable) to which is added 49/160<sup>ths</sup> of the amount of any pension credited to your **pension account** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or **civil partner** is equal to 1/160<sup>th</sup> of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry or enter into a **civil partnership** after retiring in which case it could be less. For an **eligible cohabiting partner** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's pension**).

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

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

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

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

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

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

- all of the above criteria apply at the date of your death, and

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

#### **Who is the lump sum death grant paid to?**

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

### **Leavers without an immediate entitlement to benefits**

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

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

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

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

#### **Refunds of Contributions**

If you leave, or opt out of the scheme after 3 months' membership, and you've not met the 2 years ***vesting period*** you will normally be able to take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P) in relation to any membership before 6 April 2016. A refund of contributions must be paid within 5 years of your leaving the scheme (or age 75 if earlier).

#### **Deferred benefits**

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

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your ***Normal Pension Age***, but:

- they may be put into payment earlier and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be capable of undertaking any gainful employment within 3 years of applying for the benefit or by your ***Normal Pension Age***, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 55 onwards, or
- you can, if you wish, elect not to draw your deferred benefits at your ***Normal Pension Age*** and defer drawing them till some time later (although they must be paid by age 75).

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

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

If you leave with deferred benefits and die before they come into payment a spouse's, **civil partner's** or, subject to certain qualifying conditions, an **eligible cohabiting partner's pension** and pensions for **eligible children** are payable. For each year of membership you built up from 1 April 2014 to your date of death you would have been credited with a pension equal to a proportion (i.e. 1/49<sup>th</sup> or, for any period you were in the 50/50 section of the scheme, 1/98<sup>th</sup>) of the **pensionable pay** (or **assumed pensionable pay** where applicable) you received during that year. The pension payable to a spouse, **civil partner** or **eligible cohabiting partner** is calculated on a different proportion i.e. 1/160<sup>th</sup> of the **pensionable pay** (or **assumed pensionable pay** where applicable) to which is added 49/160<sup>ths</sup> of the amount of any pension credited to your **pension account** following a transfer of pension rights into the scheme from another pension scheme or arrangement. For final salary membership built up **before** 1 April 2014 the pension payable to a spouse or **civil partner** is equal to 1/160<sup>th</sup> of your **final pay** times the period of your membership in the scheme up to 31 March 2014 upon which your pension is based, unless you marry or enter into a **civil partnership** after retiring in which case it could be less. For an **eligible cohabiting partner** the calculation is the same but the pension is only based on the period of membership after 5 April 1988 (plus any of your membership before 6 April 1988 for which you've paid additional contributions so that it counts towards an **eligible cohabiting partner's pension**).

#### **What if I have two or more LGPS jobs?**

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

#### **Transferring your benefits**

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



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

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

### **Transferring your benefits to a flexible benefit scheme**

Flexible benefits were introduced by the Government from 6 April 2015 to allow members of defined contribution schemes, who are over age 55, more freedom on how they take money from their pension pot.

The LGPS is not a defined contribution pension scheme (it is a defined benefit scheme) and as such, it is not directly affected by these changes. However, if you stop paying into the LGPS and you have three or more months' membership, then unless you are retiring with immediate effect due to redundancy, business efficiency or ill health, you will have the right to transfer your LGPS pension to a defined contribution scheme providing flexible benefits.

Please note that you will be required by law to take independent financial advice if the value of your pension benefits in the LGPS (excluding AVCs) is more than £30,000. You are not required to take independent financial advice if the value of your benefits is less than £30,000. However, transferring your pension rights is not always an easy decision to make and seeking the help of an independent financial adviser before you make a decision to transfer could help you in making an appropriate decision.

There are four main options for members, aged over 55, who are in a defined contribution scheme which provides flexible benefits, including:

- purchasing an annuity
- flexi-access drawdown
- taking a number of cash sums at different stages
- taking the whole pot as cash in one go

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

### **Help with pension problems**

#### **Who can help me if I have a query or complaint?**

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

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

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**

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

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

- **The Pensions Advisory Service (TPAS)**

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

11 Belgrave Road  
London  
SW1V 1RB

Telephone 0300 1231047

Website [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

- **The Pensions Ombudsman (TPO)**

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

11 Belgrave Road  
London  
SW1V 1RB

Telephone 0207 630 2200

Website [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

- **The Pensions Regulator**

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

Telephone 0345 6000707

Website [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### How can I trace my pension rights?

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

The Pension Tracing Service  
The Pension Service 9  
Mail Handling Site  
Wolverhampton  
WV98 1LU                      Telephone 0345 6002 537  
Website [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

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

### Some terms we use

#### Additional Voluntary Contributions (AVCs)

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

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

#### Admission Body

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

#### Assumed Pensionable Pay

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

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

The **assumed pensionable pay** is calculated as the average of the **pensionable pay** you received for the 12 weeks (or 3 months if monthly paid) before the pay period in which you went on to reduced pay or no pay because of sickness or injury or you started a period of **relevant child related leave** or **reserve forces service leave**. In calculating the average, any reduction due to authorised leave of

absence or due to a trade dispute is ignored. The resulting figure is then grossed up to an annual figure and then divided by the period of time you were on reduced pay or no pay for sickness or injury or on **relevant child related leave** or **reserve forces service leave**.

**Assumed pensionable pay** is also used to work out any enhancement to your pension awarded as a result of ill health retirement, any lump sum death grant following death in service, and any enhancement which is included in survivor benefits following death in service. The **assumed pensionable pay** for these purposes is calculated as the average of the **pensionable pay** you received for the 12 weeks (or 3 months if monthly paid) before you died in service or before you left employment due to ill-health retirement. In calculating the average, any reduction due to authorised leave of absence or due to a trade dispute is ignored. Also, where an independent registered medical practitioner certifies that, during the period used to determine **assumed pensionable pay**, you were working reduced contractual hours because of the ill-health which led to your retirement or death in service, the **assumed pensionable pay** is to be calculated on the pay you would have received during that period had you not been working reduced contractual hours. The resulting figure is then grossed up to an annual figure.

#### **Automatic enrolment date**

This is the earlier of:

- the day you reach age 22 provided you are earning more than £10,000 (2017/18 figure) a year in the job, or
- the beginning of the pay period in which you first earn more than £10,000 (2017/18 figure) in the job, on an annualised basis, provided you are aged 22 or more and under **State Pension Age** at that time.

#### **Civil Partnership (Civil Partner)**

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

#### **Consumer Prices Index (CPI)**

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

#### **Eligible children**

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

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

**Eligible children** must meet the following conditions:

- be under age 18, or
- be aged 18 or over and under 23 and in full-time education or vocational training (although your administering authority can continue to treat the child as an eligible child notwithstanding a break in full-time education or vocational training), or
- be unable to engage in gainful employment because of physical or mental impairment and either:
  - has not reached the age of 23, or

- the impairment is, in the opinion of an independent registered medical practitioner, likely to be permanent and the child was dependent on you at the date of your death because of that mental or physical impairment.

### **Eligible cohabiting partner**

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

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

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

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

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

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

### **Eligible Jobholder**

An **eligible jobholder** is a worker who is aged at least 22 and under **State Pension Age** and who earns more than the annual amount of £10,000 (2017/18 figure).

### **Final pay**

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

### **Normal Pension Age**

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

You can use the Government's **State Pension Age** calculator ([www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)) to find out your **State Pension Age**.

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

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

### **Pension Account**

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

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

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

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

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

### **Pensionable Pay**

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

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

### Relevant Child Related Leave

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

### Reserve Forces Service Leave

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

### Scheme Year

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

### State Pension Age

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

### State Pension Age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

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

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

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

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

## Vesting Period

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

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

## Further information and disclaimer

This guide is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation as at April 2017.

The national web site for members of the LGPS is [www.lgpsmember.org](http://www.lgpsmember.org)

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1 million in 2017/18), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2017/18) or for high earners, the tapered annual allowance), those to whom protected rights apply, those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only. More detailed information about the scheme is available from:

Harrow Council Pension Fund  
Pension Team  
3<sup>rd</sup> Floor South Wing  
Civic Centre  
Harrow  
HA1 2XF  
Telephone No: 020 8424 1186



**LONDON BOROUGH OF HARROW  
PENSION FUND**

**INVESTMENT STRATEGY STATEMENT**

**March 2017**



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## Executive Summary

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

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

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

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

## **1. Introduction**

- 1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.
- 1.2 The Council has delegated to its Pension Fund Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority ..... save for those matters delegated to other committees of the Council or to an officer."
- 1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).
- 1.4 The ISS, which was approved by the Committee on 7 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers, the Pension Board and the two trade union observers. The ISS should be read in conjunction with the Fund's Funding Strategy Statement also approved by the Committee on 7 March 2017.

## **2. Statutory background**

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

## **3. Directions by Secretary of State**

- 3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department for Communities and Local Government.
- 3.2 The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

## **4. Advisers**

- 4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Committee and Council officers such advice is taken from:
- Aon Hewitt Ltd – investment consultancy
  - Independent advisers
- 4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP

## **5. Objective of the Fund**

- 5.1 The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (ie the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.
- 5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.
- 5.3 Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

## **6 Investment beliefs**

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

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

## **7 The suitability of particular investments and types of investments**

- 7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.
- 7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.
- 7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used).
- 7.4 The Committee has set a strategic asset allocation benchmark for the Fund as detailed in the table below. This benchmark was set in 2013 following the decision to invest into diversified growth funds. It has subsequently been reviewed regularly with the concept of liability driven investments being given particular consideration.

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

- 7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in “growth assets” i.e. those expected to generate ‘excess’ returns over the long term. These include equities, and private equity. The structure also includes a small allocation to “cash flow matching” assets, mainly corporate bonds. The investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.
- 7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability and diversification given the Fund’s level of funding and liability profile
  - The level of expected risk
  - Outlook for asset returns

- 7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for the private equity investment which is now subject to significant distributions, a re-balancing exercise is carried out to ensure that the allocation remains within the range set. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.
- 7.8 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future.
- 7.9 At the time of drafting of this Statement, the finalised results of the Fund's 2016 actuarial valuation were not available. The intention is for an Asset Liability Modelling exercise to be undertaken and the strategy reviewed once the results of the valuation become available.
- 7.10 In the meantime, the Fund's investment consultants have undertaken some high level modelling, using a return based model, to provide some relevant statistics in relation to the Fund.
- 7.11 The table below outlines the 10 year expected returns and volatilities, on an absolute basis, for the asset classes in which the Fund invests. Expected volatility in this context means that in any given year, approximately 95% of the possible return outcomes will be within the range of the expected return plus or minus two times the volatility



Asset Class	10 Year Expected Return (% p.a.)	10 Year Volatility (% p.a.)
<b>Passive Global Equities</b>	7.0	20.2
Passive Global Equities (currency hedged)	6.5	17.4
<b>Active Global Equities</b>	8.5	21.3
Active Global Equities (currency hedged)	8.0	18.6
<b>Emerging Market Equities (Active)</b>	8.7	31.7
Private Equity (Global)	8.0	27.6
<b>UK Property</b>	5.3	12.5
Diversified Growth (GARS)	5.5	11.2
Diversified Growth (Capital Preservation)	4.5	10.2
Corporate Bonds (AA rated, 10 year duration)	1.9	8.9
Index Linked Gilts (25 year duration)	0.2	11.7

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

7.12 Using the same assumptions as above, as at 30 September 2016 the 10 year expected absolute return of the Fund's investment strategy was 7.0% p.a., with a 10 year expected volatility of 14.7% p.a. Modelling the current investment strategy relative to a proxy for the Fund's liabilities<sup>1</sup>, the 10 year relative return was 6.4% p.a. with an expected volatility of 17.4%. More detailed analysis of the Fund's expected returns and risks will be undertaken as part of the Asset Liability Modelling exercise, to be completed once the 2016 actuarial valuation has been completed.

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

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

## **8 Asset classes**

- 8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 8.3 Apart from the maximum level of investments detailed in the table above the Fund has no further restrictions.
- 8.4 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity and property. Over 70% of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.
- 8.5 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

## **9 Fund managers**

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

- 9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.
- 9.3 Except for the passive global equities manager, the managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.
- 9.4 The management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 9.5 As at the date of this ISS the details of the managers appointed by the Committee are as follows:

**9.5.1 State Street Global advisors Ltd**

Asset class – Global equities

Benchmark – FTSE All-World Index

Performance objective – Match the performance of the benchmark

**9.5.2 Longview Partners**

Asset class – Developed World equities

Benchmark – MSCI World (Local) (TR Net)

Performance objective – +3% to +3.5% p.a. (gross) over three year rolling periods

**9.5.3 Oldfield Partners**

Asset class – Developed World equities

Benchmark – MSCI World NDR

Performance objective – Outperform the benchmark by 2-3% net of fees over the long term

#### **9.5.4 GMO LLC**

Asset class – Emerging Markets equities

Benchmark – MSCI Emerging Markets

Performance objective – Outperform the index over a market cycle

#### **9.5.5 BlackRock Investment Management (UK) Ltd**

Asset class – Corporate bonds

Benchmark – iBoxx Sterling Non-Gilts 10+ Years Index

Performance objective – Match the performance of the benchmark

#### **9.5.6 BlackRock Investment Management (UK) Ltd**

Asset class – Index linked gilts

Benchmark – FTSE Actuaries UK Index Linked Gilts Over 5 Years Index

Performance objective – Match the performance of the benchmark

#### **9.5.7 Insight Investment**

Asset class – Diversified Growth Fund

Benchmark – 3 Month GBP LIBID

Performance objective – Sterling 3-month LIBID + 3-5%p.a. net of fees

#### **9.5.8 Standard Life Investments**

Asset class – Diversified Growth Fund

Benchmark – 3 Month GBP LIBOR

Performance objective – LIBOR (6 month) +5% p.a. over rolling 3 year periods (gross of fees)

#### **9.5.9 Pantheon Ventures**

Asset class – Private equity

Benchmark: Europe Fund V 'A' LP - MSCI Europe Net TR; FTSE Europe Net TR; Russell Europe Index

Benchmark: USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index

Benchmark: Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR; Russell Global Net TR

Performance objective – Outperform the quoted benchmarks by 3-5% over the long term.

#### **9.5.10 Aviva Investors Global Services Ltd**

Asset class – Property

Benchmark – IPD UK PPF All Balanced Fund

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

- 9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.
- 9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.
- 9.8 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration

### **10 Stock lending**

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

### **11 Approach to risk**

- 11.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.
- 11.2 At least once a year (most recently on 21 June 2016) the Committee reviews its risk register which details the principal risks identified and the Committee's approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.

#### **11.3 Funding risks**

11.3.1 The major funding risks identified are:

- Fund assets are not sufficient to meet long term liabilities
- Relative movement in value of Fund assets does not match the relative movement in Fund liabilities

- Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
- Insufficient assets to meet short and medium term liabilities

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

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

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

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

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

## 11.4 Asset risks

11.4.1 The major asset risks identified are:

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

#### 11.4.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.
- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- Whilst part of the objective of the Committee is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Committee acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

### 11.5 Security risks

#### 11.5.1 The major security risks identified are:

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

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

## **12 Approach to pooling**

- 12.1 In line with the Government's pooling agenda the Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV is operating were set out in the July 2016 submission to Government.
- 12.2 The London CIV is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid classes to follow.
- 12.3 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress. At its meeting on 21 June 2016 the Committee agreed that "subject to suitable investment products being available" they envisaged 96% of the Fund's assets being invested with the London CIV by the end of 2020.
- 12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments.
- 12.5 However, it has since become clear that, in accordance with Government guidance, assets held in life funds should be retained outside pools. The Fund's allocation of 31% of its total assets in a global equities passive mandate is held in a life fund which thereby reduces the "poolable" universe to 65%. Nevertheless, the Fund agrees that the London CIV should monitor its passive fund as part of the broader pool.
- 12.6 At the time of preparing this Statement no suitable investment products have yet become available.
- 12.7 Any assets deemed not appropriate for investment through the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate and whether the non-pooled investments continue to demonstrate value for money. The next such review will take place no later than 2019.



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

### **13 Social, environmental and governance considerations**

- 13.1 As considered earlier, the Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.
- 13.2 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- 13.3 All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which they invest. Further, it expects its managers to follow good practice and use their influence as major institutional investors and long term stewards of capital to promote good practice in companies in which they invest and markets to which the Fund is exposed.
- 13.4 The Fund expects its investment managers (and especially the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund. Effective monitoring can inform engagement with boards and management of investee companies to seek the resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed the Fund expects its managers to

participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

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

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

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

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

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

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

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

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

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

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

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

- 14.4 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.
- 14.5 The fund managers provide reports on their voting and engagement activities.

## **15 Stewardship**

- 15.1 Whilst the Committee expects its investment managers to have signed up to The Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors ("The UK Stewardship Code") it has not yet done so itself. It will be considering whether to do so during the next year
- 15.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.
- 15.3 The Fund also believes in collective engagement and is a member of the LAPFF which exercises a voice on behalf of over 70 local authority pension funds across a range of corporate governance issues.
- 15.4 Additionally the Fund is a member of the Pensions and Lifetime Savings Association through which it joins with other investors to maximize the influence of investors as asset owners.

## **16 Compliance with "Myners" Principles**

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

## Appendix 1

### Compliance with “Myners” Principles”

#### 1. Effective decision-making

Administering authorities should ensure that:

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

#### Fund compliance – Full

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

#### 2 Clear objectives

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

#### Fund compliance - Full

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

### **3 Risks and Liabilities**

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

#### Fund compliance – Full

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

### **4 Performance Assessment**

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

#### Fund compliance – Partial

- In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
- Up to 31 March 2016 regular performance measurement reports were received from State Street Global Services, the most active provider of these services to Local Government Pension Scheme administering authorities. State Street no longer provide these services.
- The Council has now agreed a contract with Pensions and Investment Research Consultants Ltd for them to provide quarterly and annual reports detailing the performance of the Fund and its managers and identifying the achievements resulting from asset allocation and manager performance.
- The performance of actuaries and advisers is informally assessed on an ongoing basis.

- The performance of the Fund is reported annually to all scheme members and is included in the Annual report.
- The relationships between the Committee and the Pension Board are being developed in order that the Board can assist the Committee in its work.

## **5 Responsible Ownership**

Administering authorities should:

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

### Fund compliance – Partial

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

## **6 Transparency and Reporting**

Administering authorities should:

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

### Fund compliance – Full

- The Fund publishes a Communications Policy Statement detailing its policy and strategy for communicating information to members, prospective members and their employers, union representatives, elected Members, tax payers and other interested parties. The Fund makes available a range of documents including:

- Annual Report including Statement of Accounts.
  - Governance Compliance Statement which includes level of compliance.
  - Communications Policy Statement.
  - Investment Strategy Statement.
  - Funding Strategy Statement.
  - Triennial Actuarial Valuation.
  - Agenda and Minutes of Pension Fund Committee and Pension Board.
  - Annual Statement of Benefits to all active and deferred members.
  - Newsletter to pensioners once a year.
  - Newsletters to active members at least once a year.
- 
- The Communications Policy Statement details the methods of communication available for each "target" group which include:
    - The Council's website
    - Hard copy
    - Annual employers meeting





# **Funding Strategy Statement**

**London Borough of Harrow Pension Fund**

**March 2017**

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# 1 Introduction

## 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 7 March 2017.

## 1.2 What is the London Borough of Harrow Pension Fund?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

## 1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

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

#### **1.4 How does the Fund and this FSS affect me?**

This depends on who you are:

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

#### **1.5 What does the FSS aim to do?**

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

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

## **1.6 How do I find my way around this document?**

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

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Ian Talbot, Treasury and Pension Fund Manager in the first instance at e-mail address [ian.talbot@harrow.gov.uk](mailto:ian.talbot@harrow.gov.uk) or on telephone number 0208 424 1450.

## 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions are made to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

### 2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

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

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing its membership of the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## **2.5 How is a deficit (or surplus) calculated?**

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

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions in the future; deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;



- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice; such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of Council Tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the Council will wish to minimise the extent to which Council Tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

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

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying lower contributions

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

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

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

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

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Council Pool	Academies	Colleges	Open to new entrants	Closed to new entrants	
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to "gilt basis" - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	20 years	20 years – subject to security / covenant check	20 years – subject to security / covenant check	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
Secondary rate – <a href="#">Note (d)</a>	Monetary amount					
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority	Reduce contributions by spreading the surplus over the remaining contract term – where deemed appropriate by the Administering Authority
Probability of achieving target – <a href="#">Note (e)</a>	65%	67%	67%	67%	67%	75%
Phasing of contribution changes	Covered by stabilisation arrangement	None				
Review of rates – <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					
New employer	n/a	<a href="#">Note (g)</a>	n/a	<a href="#">Note (h)</a>	<a href="#">Note (i)</a>	<a href="#">Notes (h) &amp; (i)</a>

<p><b>Cessation of participation: cessation debt payable</b></p>	<p>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <u>Note 11</u>.</p>	<p>Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <u>Note 11</u>.</p>	<p>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</p>
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**Note (a) (Basis for Community Admission Bodies and Designating Employers closed to new entrants)**

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

**Note (b) (Stabilisation)**

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

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

The current stabilisation mechanism applies if:

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

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

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

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

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

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

**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the valuation date (31 March 2016 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

**Note (d) (Secondary rate)**

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

**Note (e) (Probability of achieving funding target)**

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

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

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

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

**Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

#### **Note (g) (New Academy conversions)**

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

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the Council's assets in the Fund. This asset share will be calculated using the estimated funding position of the Council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the Council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the Council funding position and, membership data, all as at the day prior to conversion.
- v. As an alternative to (iv), the academy will have the option at conversion to pay a stabilised rate of contribution as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

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

#### **Note (h) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.



Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### **Note (i) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(i\)](#).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

**Note (j) (Admission Bodies Ceasing)**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.4 Pooled contributions**

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

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### **3.5 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit or surplus;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and

- whether the admission agreement is likely to be open or closed to new entrants.

### **3.6 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### **3.7 Ill health early retirement costs**

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

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### **3.8 External ill health insurance**

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### **3.9 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### **3.10 Policies on bulk transfers**

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the Pension Fund Committee meetings.

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

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

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

### 5.2 Solvency

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

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

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

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

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

Relative considerations include:

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



Absolute considerations include:

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

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

## Appendix A – Regulatory framework

### **A1 Why does the Fund need an FSS?**

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### **A2 Does the Administering Authority consult anyone on the FSS?**

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in December 2016 for comment;
- b) Comments were requested by 20 January 2017.;
- c) There was an Employers Forum on 2 February 2017 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

Published on the Council website

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

A copy sent to [employee/pensioner] representatives;

A full copy [included in/linked from] the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

**A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Committee and would be included in the relevant Committee Meeting minutes.

**A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Compliance Statement and Communications Policy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Council website

## Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

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

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p>

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

**C3 Demographic risks**

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

**C4 Regulatory risks**

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

**C5 Governance risks**

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.



Risk	Summary of Control Mechanisms
	<p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <u>Notes (h) and (j) to 3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>

## Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

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

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

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

### **D2 How is the Primary contribution rate calculated?**

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

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

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

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

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

### **D3 How is the Secondary contribution rate calculated?**

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

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

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

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

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

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

### **D4 What affects a given employer's valuation results?**

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

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

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

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

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

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## Appendix E – Actuarial assumptions

### **E1 What are the actuarial assumptions?**

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **E2 What basis is used by the Fund?**

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\) to 3.3](#).

### **E3 What assumptions are made in the ongoing basis?**

#### **a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

## **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. the retail prices index (RPI) per annum p.a. thereafter.

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

## **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

## **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

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

**e) General**

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the <b>funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.



<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details.

**Stabilisation**

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

**Valuation**

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.