

Pensions Board

Agenda

Wednesday 5 June 2019

7.00 pm

Committee Room 3 - Hammersmith Town Hall

MEMBERSHIP

Employer Representatives
Councillor Bora Kwon Councillor Rory Vaughan
Scheme Member Representatives
Eric Kersey Orin Miller Neil Newton

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Date Issued: 28 May 2019

Pensions Board Agenda

5 June 2019

<u>Item</u>	<u>Pages</u>
1. APPOINTMENT OF CHAIR The Board is asked to appoint a Chair for the 2019-20 Municipal Year.	
2. MINUTES OF THE PREVIOUS MEETING The meeting held on 6 February 2019 was not quorate, but an informal briefing session took place and the notes are presented for information.	5 - 10
3. APOLOGIES FOR ABSENCE	
4. DECLARATIONS OF INTEREST If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent. At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken. Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest. Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.	
5. DRAFT MINUTES OF THE PENSIONS SUB-COMMITTEE Draft minutes of the Pensions Sub- Committee meetings held on 13 February 2019 and 26 March 2019.	11 - 21

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|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 6. | LGPS ADMINISTRATION PERFORMANCE UPDATE REPORT | 22 - 26 |
| | This report provides an update of performance against the agreed KPIs and highlights the data cleansing deliverables. | |
| 7. | PENSION FUND QUARTERLY UPDATE REPORT | 27 - 72 |
| | This paper provides Members with a summary of the Pension Fund's overall performance for the quarter ended 31 December 2018. | |
| 8. | FIXED INCOME STRATEGY | 73 - 76 |
| | This paper provides Members with an overview on the current fixed income portfolio and its performance. | |
| 9. | MEMBER KNOWLEDGE AND SKILLS TRAINING | 77 - 82 |
| | This report contains the Knowledge and Skills Self-Assessment training form to be completed by committee members. | |
| 10. | ASSET POOLING CONSULTATION | 83 - 100 |
| | This paper details the LBHF response to the proposed new statutory guidance on LGPS asset pooling from the Ministry of Housing, Communities and Local Government (MHCLG). | |
| 11. | LGPS COST CAP, MCCLOUD CASE (SUPREME COURT) AND ACTUARIAL VALUATION CONSULTATION | 101 - 133 |
| | This paper provides Members a summary of the background information on the LGPS cost cap in public service pensions and recent developments. | |
| 12. | EXIT CAP CONSULTATION | 134 - 151 |
| | This paper provides Members a summary of the background of the proposed cap on exit payments in the public sector. | |
| 13. | EXCLUSION OF THE PUBLIC AND PRESS | |
| | The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information. | |
| 14. | FIXED INCOME STRATEGY (EXEMPT ELEMENTS) | |
| | This report contains the exempt elements of Item 8. | |

Agenda Item 2

London Borough of Hammersmith & Fulham

Pensions Board Minutes



Wednesday 6 February 2019

This meeting was not quorate. The following notes are brief discussions held by the Committee.

PRESENT

Committee members: Councillors Rory Vaughan

Co-opted members: Orin Miller

Officers: David Coates, (HR and Payroll Consultant), Lesley Bell (Business & Performance Manager), Mark Grimley (Director of Corporate Services), Phil Triggs (Director of Treasury and Pensions), Timothy Mpofu ((Pension Fund Manager)

1. APPOINTMENT OF VICE CHAIR

This was deferred to the next meeting.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were noted.

3. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Bora Kwon, Neil Newton, and Eric Kersey.

4. DECLARATIONS OF INTEREST

There were no declarations of interest.

5. MINUTES OF THE PENSIONS SUB-COMMITTEE

The minutes of the Pensions Sub-Committee were noted.

6. LOCAL GOVERNMENT PENSION SCHEME (LGPS) ADMINISTRATION PERFORMANCE UPDATE

David Coates, HR and Payroll Consultant introduced the report and provided an update on the performance of Surrey County Council (SCC) pension administration services. Performance across monthly Pensioner Payroll and Annual Exercises had

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achieved 100%. In addition, the Pensioners Newsletter would also be circulated in April 2019. It was noted that the Pension Administration figures for January 2019 were not yet available.

David Coates, said that SCC had agreed to prioritise their resources on the resolution of queries at the first point of contact. This would be supported via a dedicated help desk to enhance the user experience. As a result, the rate for first point of contact resolution based on an average of 500 queries per month was 89%. This was an improvement from 2017/18.

Following the Q2 results it was identified that the performance for Transfer In and Transfer Out was unacceptable. In response SCC created a specialist team to make improvements in this area.

In Q2 two new portals were launched. These were designed for use by Scheme Members and Employers with the aim of providing more up to date paperless information. Annual Benefit Statements (ABSs) for the year 2017/18 were made available online via the portal to Scheme Members. Furthermore, training sessions were also provided by SCC to members which had received positive feedback.

David Coates commented that work was being carried out to ensure that member records would be updated prior to the triennial valuation in April 2019.

Orin Miller, Co-Opted member asked how scheme members were notified of their ABSs using the online portal. In response David Coates said that a letter was circulated to all scheme members, advising them to register and log on to their account to access their statements.

The Chair expressed his disappointment around the performance levels for some of the administration services and asked for clarification around what had caused the drop in these areas in December 2018. David Coates said that some funds were not processed within the expected timeframe due to discrepancies in the quality of information inherited from BT. This had led to a delay in SCC processing this information, therefore had a negative impact on some of the performance levels.

The Chair asked if BT had been issued with any penalty charges due to their lack of engagement in this matter. David Coates explained that the Council was unlikely to receive any compensation for this error from BT, as the team that provided this service to the Council had been dispersed and no longer existed.

The Chair thanked officers for the update and noted the progress that had been made by SCC. In addition, said that it was good to see that scheme members were using the online portals and accessing their ABSs.

7. NON-PAYMENT OF PENSIONS CONTRIBUTIONS BY TBAP MULTI ACADEMY TRUST

David Coates, HR and Payroll Consultant provided a brief background on the TBAP Multi-Academy Trust and noted that TBAP was a scheduled body of the Council's Local Government Pensions Fund.

Between July 2017 and March 2018 due to cash flow issues TBAP failed to pay employer and employee contributions to the Council's Pensions Fund in respect of the Bridge AP Academy employees who were members of the Local Government Pension Scheme (LGPS). The Retained Pensions Team conducted a series of telephone and written conversations with TBAP until the matter was resolved. In addition, the issue was reported to the Pensions Regulator and their response was included in Appendix 1. The Pensions Regulator expressed their concerns around the Council's failings. Furthermore, the delay in reporting the breaches and the lack of communication with members regarding this matter was highlighted.

David Coates noted that due to the seriousness of this matter and as recommended by the Pensions Regulator it was appropriate to notify the Pensions Board of this issue.

The Chair asked how many scheme members were affected by this issue. In response, David Coates said that this related to the 150 scheme members that were accessing services through the Bridge AP Academy.

The Chair said that should a similar issue arise in the future a request for a special meeting be made as a priority due to the importance of reporting such matter to the Pensions Board.

8. EQUITY PROTECTION

Phil Triggs, Director of Treasury and Pensions, provided a brief background of the Fund's equity protection allocation. He noted that the Pensions Sub-Committee had considered different types of equity protection strategies available that provided equity downside protection. In addition, a special training session was also held on the subject to ensure that the Pensions Sub-Committee was fully briefed on all areas of equity protection. Officers also had numerous discussions with advisors on whether adopting this strategy would be beneficial for the Fund, but concluded that it would not be appropriate for the reasons set out on page 39 of the agenda pack.

At the November 2018 meeting the Sub-Committee decided not to pursue any form of equity strategy for the foreseeable future.

9. LOW CARBON STRATEGY

Phil Triggs, Director of Treasury and Pensions, introduced the report and noted that the Pensions Sub-Committee was presented with various options on low carbon at the July and September 2019 meetings. This included the FTSE Russell and Low Carbon and the MSCI World Low Carbon indices. MSCI World Low Carbon Index had outperformed the MSCI World Index over a seven-year cycle. This presented a compelling case for moving the portfolio to this index as part of an investment decision to secure better returns from the portfolio. The Sub-Committee was reminded of its fiduciary duties and considered the Environmental Social and Governance (ESG) factors in line with its responsibility to ensure a positive investment outcome, e.g. using a responsible investment approach, whilst monitoring the financial implications for the Fund.

Based on various factors the Sub-Committee decided to transition its entire passive equity holdings from the MSCI World Index to the MSCI world Low Carbon under the existing LGIM mandate as they felt this was the most suitable option for the Pension Fund. This transition was completed on 18 December 2018.

10. IBC ONBOARDING

Phil Triggs, Director of Treasury and Pensions noted the changes to employee pensions contribution calculations, arising from the move to the Hampshire County Council Integrated Business Centre (IBC). There would be changes to how employee contributions bandings were calculated and the effect of auto-enrolment for some employees prior to some individuals choosing to opt out.

The Chair asked how the new arrangements would impact the Fund. In response, Phil Triggs noted that the new method was a fairer, more equitable solution for both the Fund and members as it more effectively calculated the annual salary for pensions banding purposes. However, it was difficult to estimate whether net contributions would go up or down due to the complexities surrounding this.

It was noted that members would continue to be automatically opted onto the pensions scheme when employment commenced. Employees had the right to opt out for the scheme if they wished, by signing an opt out form.

11. PIRC ANNUAL REPORT

Phil Triggs, Director of Treasury and Pensions provided an update on the investment performance of the fund during the financial year 2017/18. It was noted that the average local authority fund produced a return of 4.5%. In comparison the Councils Pension Fund produced 1.7% which ranked in the 95th percentile. The reason for the comparably lower return and longer-term performance was also noted.

Orin Miller, Co-Opted Member said that the report was useful to read in terms of the performance. Furthermore, he commented that it would be useful to be updated on how individual asset classes performed including an estimation of the expected long-term returns going forward.

12. QUARTERLY UPDATE PACK

Phil Triggs, Director of Treasury and Pensions provided a summary of the Pension Fund's overall performance for the quarter ended 30 September 2018. This included administrative investment and cash management performance for the quarter. In addition, it was noted that the Pensions Fund risk register was revamped to show a more meaningful assessment of risks and actions taken to mitigate them. This had led to the identification of additional risk in investment, governance, and administrative areas.

The Chair asked for clarification around when the triennial valuation for the Fund was due to take place. In response, Phil Triggs said that the next review date was 31

March 2019 and the initial results would be available in October 2019. The final valuation and contribution rates would be concluded in March 2020.

Referring to Appendix 1 (Scorecard), the Chair commented that the figure for the deferred beneficiaries in March looked higher than expected and asked officers for this to be investigated and rectified subject to an error being established. In addition, he was pleased to note that most of the Fund's administration risks had moved to green on the risk register

13. GAD REPORT

Phil Triggs, Director of Treasury and Pensions provided an update on the Government Actuary's Department (GAD) report (2016 LGPS triennial actuarial valuation outcome). He explained that the original report was uncomplimentary across the LGPS Funds and was not reflective of their strong position. In addition, some of the tests were regarded by LGPS actuaries as not fit for purpose. Upon receiving notable challenges from various actuarial firms, GAD revised their report reflecting the improved funding positions across the board. The Council also received green flags across the board on the GAD's various tests which suggested that the Fund was in a relatively strong position.

14. MHCLG CONSULTATION UPDATE

Phil Triggs, Director of Treasury and Pensions explained that the Ministry of Housing, Communities and Local Government (MHCLG) had prepared a new statutory guidance on LGPS asset pooling. This guidance would set out the requirements on administering authorities and replace the previous guidance. Views were currently being sought on the draft guidance and the consultation process would close on 28 March 2019. A summary of the key points was outlined on page 186 of the agenda pack.

The Chair queried whether the Council would still have discretion around manager selection. In response, Phil Triggs said that this would not be the case going forward – pool members would need to establish and maintain a pool governance body to set the direction of the pool and hold the pool company to account.

The Chair asked for an update on how the new governance arrangements for LGPS were progressing. In response Phil Triggs said that LCIV had appointed Mike O'Donnell as LCIV Chief Executive and he was expected to join LCIV on 4 March 2019 to develop and deliver further benefits for London boroughs. There was a lot of optimism around his appointment. Furthermore, a Chief Investment officer would also be appointed following the departure of Julian Pendock.

Meeting started: 7:00pm
Meeting ended: 8:30pm

Chair

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Agenda Item 5



London Borough of Hammersmith & Fulham

Pensions Sub-Committee Minutes

Wednesday 13 February 2019

PRESENT

Committee members: Councillors Iain Cassidy, Rebecca Harvey, Asif Siddique and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), Matthew Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager), and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson (Deloitte), Andy Burgess and Gary Wilkinson (Insight)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the minutes of the meeting held on 20 November 2018 were approved and signed by the chair

2. APOLOGIES FOR ABSENCE

There were no apologies for absence.

3. DECLARATIONS OF INTEREST

There were no declarations of Interest.

4. QUARTERLY UPDATE

The Chair welcomed Andy Burgess, and Gary Wilkinson, Insight Investment to provide a presentation in relation to the performance of the Bonds Plus Fund. The following points were outlined:

- Organisational functions had grown over the last few years, ensuring that teams were well resourced to manage sophisticated mandates. The team that was managing the Council's portfolio had been in place for many years, highlighting this as an advantage.

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- An overview of the Fund's valuation and performance at 31 December 2018 was provided. It was noted that the performance of the Bonds Plus Fund was disappointing. As a result of the underperformance the Fund had not achieved the expected return on investment as anticipated.
- The difference between the German and U.S. government bond markets was highlighted.
- It was noted that the underperformance was driven by the Fund's position in emerging markets and oil related currencies such as Russian rouble and Norwegian krone. In addition, the Eurozone economy grew less than expected in the third quarter, particularly due to political aspects.

Phil Triggs, Director of Treasury & Pensions asked whether emerging market economies were sensitive to the increases in U.S. interest rates. In response Andy Burgess said that this did contribute to the Fund's under-performing position in emerging markets. Furthermore, another factor that was weighing on emerging markets was the U.S. and China trade/tariff discussions. This had led to an overall softness in global economic activity, i.e. trade expectations had fallen globally.

In response to a question from the Sub-Committee relating to risk allocation, Insight provided an overview of their risk framework and explained how this was managed in line with their risk budget. The role of the framework was to allocate risks between different asset classes. The risk budget was biased towards government bond type ideas rather than credit markets in the long-term. In addition, it was noted that the risk framework was closely monitored alongside the tracking error.

Michael Adam, Co-opted Member queried why Insight had been committed to the U.S. versus Germany trade, given that from a macro perspective there had been environmental changes over the last year. Insight said that their expectations for German government bond yields had fallen compared to 2018. In addition, European yields had also fallen faster than expected and were pricing in significantly weaker growth than what was forecasted. Although the absolute level of yields had dropped, the difference between these and the U.S. yields had remained attractive.

Michael Adam, Co-opted Member commented that given Insight's underperformance over the last three years, a cash deposit would have been a more suitable investment for the Fund. Furthermore, he felt that there was more risk involved when investing in macro type trades due to the uncertainty around the challenging market conditions.

Phil Triggs, Director of Treasury & Pensions queried whether there was any suggestion for a reduction in fees going forward. Insight explained that currently fees were 50bp, however given the performance of the fund the fees would be reviewed to reflect a reduction. However, in addition there would be a performance fee of 10% above the benchmark.

The Chair thanked Insight for the presentation and the contributions made to the meeting.

Kevin Humpherson, Deloitte provided an overview of the Pension Fund's overall investment performance. He noted that the total fund returned -5.8% over the quarter to 31 December 2018 on a net fee basis, underperforming the fixed weight benchmark by 2.4%. The three-year rolling excess return had remained negative over the quarter, declining slightly since the third quarter of 2018. The negative performance could be attributed to underperformance by Majedie, Ruffer and Oak Hill.

Michael Adam, Co-opted Member commented that, whilst Equity and Fixed income investments each reflected very different risk and return profiles, the figures had suggested that fixed income investments had proven to be more defensive given the current market conditions in comparison to equity investments.

Following a request from Members relating to the figures for Barnet Waddingham, these were tabled during the meeting and an update was provided relating to the September valuation.

The cashflow monitor showed both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to September 2019. An analysis of the differences between the actuals and the forecasts for the quarter was provided to the Sub-Committee.

RESOLVED -

THAT, the Sub-Committee noted the report.

5. MHCLG POOLING CONSULTATION

Phil Triggs, Director of Treasury and Pensions explained that the Ministry of Housing, Communities and Local Government (MHCLG) had prepared a new statutory guidance on LGPS asset pooling. This guidance would set out the requirements on administering authorities and replace the previous guidance. The new guidance would expect pool members to manage their investment strategies in partnership with their LGPS pools going forward.

Views were currently being sought on the draft guidance and the consultation process would close on 28 March 2019. A summary of the key points was outlined on page 61 of the agenda pack.

The Chair raised some concerns around the challenges faced by the London Collective Investment Vehicle (LCIV) in comparison to other pools and questioned whether it was well equipped to offer the level of service required by Local Authorities. In addition, Michael Adam, Co-opted Member requested that the Council should continue to make tactical decisions in the best interest of the Fund. In response, Phil Triggs provided reassurances that any decisions would be made in line with the Councils fiduciary responsibility to

manage the Funds' investments. However, local authorities would be bound by any statutory instrument relating to the future appointment of investment managers.

The Sub-Committee requested that a response be drafted and circulated to members for any necessary comments and feedback be provided, prior to the consultation deadline.

Action: Phil Triggs

RESOLVED -

THAT, the Sub-Committee noted the draft guidance on pooling and would express any desired feedback for the consultation process, prior to the deadline.

6. FIXED INCOME STRATEGY REVIEW

Kevin Humpherson, Deloitte noted that the purpose of this report was to review the fixed income strategy within the Fund's portfolio. An overview was provided of the dynamic asset allocation which included managers such as Ruffer and Insight and the following points were noted:

- **Ruffer** was appointed to manage an absolute return mandate. Its main purpose within the Fund was to act as a return-seeking diversifier from mainstream equities.
- Over the past three years to 30 November 2018, the Absolute Return Fund had returned 2.8% p.a. and had underperformed its sterling based benchmark by 1.7% p.a. This was mainly due to its large defensive holdings in markets that had proven to be more stable than predicted.
- **Insight** was appointed to manage an active bond portfolio. The Fund invested across a range of bond and bond-like assets, with the aim of delivering positive absolute returns.
- The Fund had significantly underperformed its 3-month Sterling LIBOR benchmark and target over the year. Insight highlighted that longer term strategic investment decisions had been the key detractor to performance over this period, specifically the Fund's strategic country allocations.

Kevin Humpherson commented that Deloitte were of the view that Ruffer still offered an effective strategy and the Ruffer Absolute Fund worked well within the overall Fund. However, the Insight Bonds Plus Fund had underperformed its target over the past 3 and 5 years and since inception periods. While it was clear that the underperformance had not been as a result of any change in the investment approach or the risk profile of the strategy, it had highlighted that the current market environment had been particularly challenging for strategies that were reliant on directional macro-economic views. Therefore, it was recommended that the Sub-Committee should consider potential replacements for this strategy where there was more reliance on market returns (beta) as opposed to active manager calls (alpha). In addition, it was also advised that the Sub-Committee be provided with a training session on

Buy & Maintain bonds and Asset Backed Securities and interview a selection of managers.

Kevin Humpherson also outlined the secure income allocation which included managers such as Aviva, Oak Hill Advisors, and Partners Group. A breakdown of the performance, including the future direction of each manager was provided. Deloitte were of the view that there was no need to review the infrastructure portfolios as Partners Group and Aviva provided a significant level of diversification whilst producing favourable returns. Furthermore, the Oak Hill, diversified credit strategy offered the overall Fund a degree of liquidity, therefore there was no need to consider changing this investment. However, it was advised that the Sub-Committee should review the Partners Group multi asset credit allocation and should consider re-allocating the Partners Group investment as the Fund was in run-off.

Michael Adam, Co-opted Member commented that it was important to diversify away from corporate credit when considering re-allocating the Partners Group investment. In response Kevin Humpherson said that alternative strategies would be explored in the future.

The Chair thanked Deloitte and officers for the useful information shared and recommendations made relating to the current strategy for the Insight Fund and asked what options were available to the Council. Matt Hopson, Strategic Investment Manager said that should the Sub-Committee decide not to persevere with the Insight Bonds Plus Fund, the contract could be terminated on 15 March 2019. In addition, a cash fund could also be set up with Legal and General Investment Management (LGIM) whilst alternative arrangements were being made.

Councillor Asif Siddique asked whether there was potential for further losses, should the Sub-Committee continue with the Insight Bonds Plus Fund investment strategy. In response Kevin Humpherson, explained that Insight's underperformance over the past 3 years was largely due to the uncertainty around the challenging market environment for the types of strategies offered by the Fund. It was therefore advised that this strategy was no longer appropriate for the Pension Fund and it was recommended to look at potential replacements to avoid further losses.

The Chair asked whether there would be any transactional costs involved if the Council proceeded with the termination of the contract. In response Matt Hopson said that there would be no penalty charges, however transactional costs may apply.

Members agreed that the Insight Fund was no longer appropriate for the portfolio in the long-term. They felt that it would be better to terminate the contract and requested that the allocation be liquidated as soon as possible, given the reasons outlined above and alternative options should be explored that were better suited for the Fund.

RESOLVED –

- THAT, the Sub-Committee noted the current composition in the fixed income portfolio.
- THAT, the Sub-Committee approved the recommendation to continue with the investments with Oak Hill and Ruffer (held through LCIV) and agreed this in principle.
- THAT, the Sub-Committee approved the switch of fixed income strategy (currently the Insight Bonds Plus mandate) to a market return driven approach in either buy and maintain bonds or asset backed securities. As the current strategy with Insight is no longer fit for purpose, the Sub-Committee indicated they would like the Insight contract to be terminated as quickly as possible.
- THAT, the Sub-Committee noted the private asset allocation with the view to look at alternative options in the market before committing further to Partners Group.

7. TRAINING PLAN

Matthew Hopson, Strategic Investment Manager noted that the Knowledge and Skills Self-Assessment training form needed to be completed by members within the next two weeks.

Councillor Rebecca Harvey requested that a breakdown of the different fixed income areas be provided and a word version of the form be circulated to members.

Action: Matt Hopson

RESOLVED -

THAT, the Sub-Committee noted the Knowledge and Skills Self-Assessment training form.

8. EXCLUSION OF THE PUBLIC AND PRESS

The Chair requested for any members of the public and press to leave the meeting room, as all the public reports had been heard and the Committee were then moving onto exempt items.

RESOLVED –

THAT, under section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined by paragraph 3 of Schedule 12A of the said Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

9. FIXED INCOME STRATEGY REVIEW - EXEMPT ELEMENTS

The exempt elements of this item were noted and discussed in conjunction with item 6.

10. ADDITIONAL ITEM - LCIV PENSIONS RECHARGE AND GUARANTEE AGREEMENT

Phil Triggs, Director of Treasury and Pensions provided an update and noted the current Local Government Pensions Scheme (LGPS) arrangements for LCIV staff. These were established in 2015. The reasons and requirements for a recharge and guarantee agreement concerning LGPS pensions liabilities were noted. The technical aspects of these agreements were also outlined.

The requirements were set by the City of London Corporation and were based on an actuarial assessment. The Corporation had authorised the admission of the LCIV as an external employer to the Corporation's LGPS Fund based on a guarantee agreement incorporated into the LCIV's Shareholder Agreement.

It was noted that London Local Authorities had requested an independent review of the LGPS pensions provision as well as the possibility of closing the LGPS to new members. Furthermore, the general feeling was that the current cap allocation was too high, given the absence of any similar defined benefit pensions provision within the financial sector.

The Chair suggested that it would be more appropriate for the Sub-Committee to consider the signing of the guarantee agreement following the outcome of an independent review of the LGPS pensions provision.

RESOLVED:

- THAT, the Sub-Committee noted the contents of the report and deferred the decision referencing the signing of the guarantee agreement until an independent review of the LGPS pensions provision was carried out.

Meeting started: 7pm
Meeting ended: 9pm

Chair

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Pensions Sub- Committee Minutes

Tuesday 26 March 2019

PRESENT

Committee members: Councillors Iain Cassidy, Rebecca Harvey, Asif Siddique and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), Matthew Hopson (Strategic Investment Manager), Timothy Mpofo (Pension Fund Manager), and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson & Jonny Moore (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the minutes of the meeting held on 13 February 2019 were approved and signed by the chair

2. APOLOGIES FOR ABSENCE

There were no apologies for absence.

3. DECLARATIONS OF INTEREST

There were no declarations of Interest.

4. BUY AND MAINTAIN MANAGER APPOINTMENT

Matt Hopson, Strategic Investment Manager, invited members to express their views on BlackRock and PIMCO, buy and maintain investment managers following the training session held on 26 March 2019.

Councillor Rebecca Harvey, referring to PIMCO's presentation, asked why there a drop-in performance in had been 2018. Matt Hopson explained that the bond value had fallen due to the increase in interest rates during that period.

Matt Hopson explained that the two investment managers offered different options to the Fund. BlackRock was a more actively managed and sterling focused fund. PIMCO was a very experienced fixed income manager with possibly the largest team of analysts globally, therefore offered more diversification in global markets.

Members felt that PIMCO presented as a better option for the Pension Fund due to the diversification benefits and asked for further clarification around the management fees for PIMCO. In response, Phil Triggs, Director of Treasury & Pensions, explained that the reduced fee offered by PIMCO would be reviewed in 2 years - the new rate would be established based on the total LCIV value of the sub-fund after 2 years.

Members asked if information regarding PIMCO's hedging process could be circulated to the Sub-Committee as this was not covered during the training session.

RESOLVED -

THAT, the Sub-Committee appoint PIMCO as a buy and maintain investment manager.

5. EXCLUSION OF THE PUBLIC AND PRESS

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

6. BUY AND MAINTAIN MANAGER APPOINTMENT - EXEMPT ELEMENTS

The exempt elements of this item were noted.


Meeting started: 7:00pm
Meeting ended: 7:30pm

Chair

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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">PENSIONS BOARD</p> <p style="text-align: center;">5th June 2019</p>	
<p>LOCAL GOVERNMENT PENSION SCHEME (LGPS) ADMINISTRATION PERFORMANCE UPDATE REPORT.</p>	
<p>Report of the Mark Grimley – Director of Corporate Services</p>	
<p>Open Report</p>	
<p>Classification: For Information</p>	
<p>Key Decision: No</p>	
<p>Consultation Please state which other services have been consulted when drafting this report.</p>	
<p>Wards Affected: N/A</p>	
<p>Accountable Director: Mark Grimley – Director of Corporate Services</p>	
<p>Report Author: Trevor Webster Bi-Borough Pensions</p>	<p>Contact Details: Tel: 0771 5771496 E-mail: trevor.webster@rbkc.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. The day to day administration of the LBHF LGPS is delegated to Surrey County Council (SCC) under a Section 101 agreement effective from 1st September 2015.
- 1.2. The Section 101 agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards, these are monitored by the Bi-Borough Pensions and LBHF Human Resources teams.
- 1.3. This report provides an update of performance against the agreed KPIs and highlights the data cleansing deliverables.

2. RECOMMENDATIONS

- 2.1 That the Pensions Board notes the contents of this report.

3. SURREY COUNTY COUNCIL'S PERFORMANCE AGAINST THE KPIs

- 3.1. SCC's performance against the agreed KPIs is shown in Appendix 1 it covers the monthly performance from September 2018 to April 2019.
- 3.2. In addition to the KPIs, an agreed priority of the pensions administration service is that SCC would focus resources on the resolution of queries at the first point of contact carried via a dedicated help desk.
- 3.3. The aim is to resolve matters and enhance the user experience by providing a speedy reply to routine queries.
- 3.4. As a result, in April 2019 of the 509 personal contacts made by employees in the LBHF LGPS to the SCC help desk 90% (452) were resolved at the first point of contact.
- 3.5. Typically, those not resolved at the first point of contact are the more complex queries that are sent on to the specialist teams to resolve and then become subject to the agreed KPIs.
- 3.6. Challenges to the overall resolution of cases such as pension fund transfers tend to result from when SCC are required to collect information from other organisations such as previous employers. In this instance it is only the SCC performance that is recorded within the KPI and not the delays that were caused by other organisations.
- 3.7. Conversations are on going with SCC regarding the point to escalate pension fund transfer cases to the Retained HR Pensions team when the lack of response from other organisations delay resolutions to a point where it impacts upon the perception of the LBHF pension service. The conversations are reviewing the end to end processes to decide what improvements can be made.
- 3.8. Overall thirteen (13) of the seventeen (17) KPIs stand at 100%.
- 3.9. Within those KPIs that do not stand at 100% the SCC performance shows an improvement from March 2019 and it's only a small number of cases (6) that fell short of the target overall in April 2019.
- 3.10. The SCC performance against the Transfers out KPI is the lowest of all the KPIs (63%) and this has been brought to the attention of SCC at the HR Pension team/SCC Liaison meetings for immediate improvement.
- 3.11. Closer monitoring of Transfers Out and the other KPIs not standing at 100% is being carried out by the HR Retained Pensions Team.

4. DATA CLEANSING FOR TRIENNIAL VALUATION 2019

- 4.1. The data for the next triennial valuation will be cut from SCC's Pension Administration System (Altair) as at the 1st April 2019.

- 4.2. The data is sent by SCC to the Pension Fund Actuary Barnett Waddingham (BW), whose role is to perform a valuation of the whole Pension fund income against its current and projected liabilities, using a series of sophisticated industry recognised algorithms.
- 4.3. The output from this exercise is an actuarially assessed LGPS employer rate for each employer for the next three years starting from 1st April 2020, which may in some rare cases include an additional lump sum to cover historic liabilities.
- 4.4. In preparation for the data output, SCC have carried out a data error identification exercise in conjunction with BW. This is to ascertain what historical data inaccuracies and inconsistencies that were inherited from Capita remain and what others have been subsequently created by BT and other payroll providers all of which need to be addressed. This is to ensure that the subsequent Employers' rates are calculated as accurately as possible.
- 4.5. The identification process found a total of 1152 data inaccuracies and inconsistencies and these are currently being worked through by SCC and the Retained HR Pensions team. To complete the exercise within the required timeframe it has been agreed that SCC have engaged additional support from the outsource provider JLT.
- 4.6. SCC have carried the required diligence and verifications checks and carry the responsibility for the quality assurance and management of JLT.
- 4.7. The agreed process requires the Retained HR Pensions Team to check and verify payroll and other data before sending to JLT for resolution. Currently 488 cases are with JLT for resolution and the remaining 664 are ongoing.
- 4.8. Fresh validation data extracts will be taken periodically during the process and checked by BW to ensure that the number of data inaccuracies and inconsistencies is reducing in line with expectations.
- 4.9. In addition to the above, the mid-year change of LBHF payroll provider has resulted in the need to merge the end of year employer 2018/19 returns that need to be supplied to SCC.
- 4.10. For 2018-19 we have year-end data from 4 sources for the borough as the employer that need to be merged into a single return. The sources are: (a) BT; (b) Hampshire; (c) schools that used BT part of the year; (d) schools that used external providers for the whole year but where the borough is still the employer. It is anticipated that the files will be merged by the end of May 2019

5. EQUALITY IMPLICATIONS

- 5.1. None

6. LEGAL IMPLICATIONS

6.1. None

7. FINANCIAL IMPLICATIONS

7.1. None

8. IMPLICATIONS FOR LOCAL BUSINESS

8.1. None

9. COMMERCIAL IMPLICATIONS

11.1 None

10. IT IMPLICATIONS

10.1. None

11. RISK MANAGEMENT

13.1 N/A

12. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

14.1 None

LIST OF APPENDICES:

Appendix 1 KPI Report – Hammersmith & Fulham Fund


LBHF PENSION ADMINISTRATION KPIS

(figures in brackets represent cases processed out of target as part of the total number given before it)

Description	Target Time	This mth -v- last mth	Apr 19 score	Apr 19 cases	Mar 19 Score	Mar 19 Cases	Feb 19 Score	Feb 19 Cases	Jan 19 Score	Jan 19 Cases	Dec 18 Score	Dec 18 Cases	Nov 18 Score	Nov 18 Cases	Oct 18 Score	Oct 18 Cases	Sep 18 Score	Sep 18 Cases
Pension Administration																		
Death Benefits																		
Write to dependant and provide relevant claim form	5 days	n/c	100%	9	100%	3	100%	1	100%	3	100%	4	100%	6	100%	4	100%	16
Set up any dependants benefits and confirm payments due	10 days	n/c	100%	11	100%	3	100%	1	100%	4	67%	3	100%	3	100%	1	94%	19
Retirements																		
New retirement benefits processed for payment following receipt of claim forms	7 days	n/c	100%	5	100%	11	100%	2	100%	0	100%	4	100%	3	100%	0	89%	10
Deferred retirement benefits processed for payment following receipt of claim forms	7 days	12% up	92%	12 (1)	80%	20 (6)	100%	11	92%	13	80%	20	100%	19	64%	15	95%	40
Refunds of Contributions																		
Refund paid following receipt of claim form	10 days	n/c	100%	2	100%	1	100%	3	100%	3	100%	6	100%	3	100%	1	42%	30
Deferred Benefits																		
Statements sent to member following receipt of leaver notification	20 days	2% up	96%	27 (1)	94%	17 (1)	100%	20	100%	22	85%	13	93%	15	100%	7	58%	91
Estimates																		
Early Retirement requests from employer	10 days	n/c	100%	3	100%	7	100%	3	67%	3	100%	4	50%	6	100%	0	90%	11
Projections																		
Requests from employees	10 days	14% up	97%	37 (1)	83%	6 (1)	86%	7 (1)	100%	4	100%	1	25%	7	100%	1	89%	21
New Joiners																		
New starters processed	30 days	n/c	100%	13	TBC	TBC	100%	9	100%	122	100%	0	100%	11	100%	39	100%	23
Transfers In																		
Quote estimate to scheme member (includes interfunds)	20 days	n/c	100%	11	100%	4	100%	7	100%	3	83%	6	100%	7	100%	0	36%	36
Transfers-in payments processed	20 days	n/c	100%	3	100%	0	100%	3	100%	1	100%	2	100%	1	100%	0	100%	1
Transfers Out																		
transfers-out quotations processed (includes interfunds)	20 days	6% up	63%	8 (3)	57%	7 (3)	100%	10	100%	11	83%	6	86%	8	75%	5	71%	40
Transfers out payments processed	20 days	29% up	100%	6	71%	7 (2)	100%	11	100%	10	100%	0	100%	0	100%	2	100%	2
Helpdesk Queries First Point Fix																		
	No set target	-	90%	509	89%	447	88%	354	88%	497	89%	348	73%	457	88%	545	93%	508
Monthly Pensioner Payroll																		
Full reconciliation of payroll and ledger report provided to Borough	Last day of month	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
Issue of monthly payslips	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
RTI file submitted to HMRC	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
BACS File submitted for payment	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-

 Green = target met
 Red = target not met

Agenda Item 7

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS BOARD</p> <p>5 June 2019</p>	
PENSION FUND QUARTERLY UPDATE PACK	
Report of the Strategic Director of Finance & Governance	
Open Report	
Classification: For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Phil Triggs, Tri-Borough Director of Treasury and Pensions	
Report Authors: Tim Mpofu, Pension Fund Manager	Contact Details: Tel: 0207 641 6308 E-mail: tmpofu@westminster.gov.uk

1. Executive Summary

- 1.1. This paper provides the Pensions Board Members with a summary of the Pension Fund's:
 - a. Overall performance for the quarter ended 31 December 2018.
 - b. Cashflow update and forecast.
 - c. Assessment of risks and actions taken to mitigate these.
 - d. Sub-Committee's strategic forward plan.

2. Recommendations

- 2.1. The Pensions Board is recommended to note this report.

3. LBHF Pension Fund Quarter 3 2018/19 Update

- 3.1. This report and associated appendices make up the pack for the quarter ended 31 December 2018. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.

- 3.2. Appendix 2 provides information about the Pension Fund's investments and performance. This report is provided by the Fund's investment advisors, Deloitte.
- 3.3. The Pension Fund's cashflow monitor is provided in Appendix 3. This shows both the current account and invested cash movements for the quarter ending 31 December 2018, as well as cashflow forecasts to 30 September 2019. An analysis of the differences between the actuals and the forecasts for the quarter is also included.
- 3.4. Appendix 4 contains the Pension Fund's Risk Registers which were revamped to show a more meaningful assessment of Fund's risks and the actions taken to mitigate them. Two additional risks have been added to the register in this quarterly report.
- 3.5. A summary of the voting undertaken by the investment managers running segregated equity portfolios forms Appendix 5. This includes both the London CIV Majedie and Ruffer funds in addition to Legal & General's (LGIM) global data. Although the Fund switched its passive equity holdings during the quarter, the voting data for LGIM has been consolidated under the fund manager's name.
- 3.6. Appendix 6 gives an update on the Forward Plan as at 31 December 2018.
- 3.7. The Pension Fund completed the transition of its passive equities holdings to the MSCI Low Carbon Index Fund under the LGIM mandate on 18 December 2018.
- 3.8. ***[Maybe include a not on post quarter movements i.e. investment in LCIV Global Bond]***

4. Legal Implications

- 4.1. None.

5. Financial Implications

- 5.1. Information only.

6. Implications for Business

- 6.1. None.

7. Background Papers Used In Preparing This Report

- 7.1. None

LIST OF APPENDICES:

Appendix 1: Scorecard at 31 December 2018

Appendix 2: Deloitte Quarterly Report for Quarter Ended 31 December 2018

Appendix 3: Cashflow Monitoring Report

Appendix 4: Pension Fund Risk Register

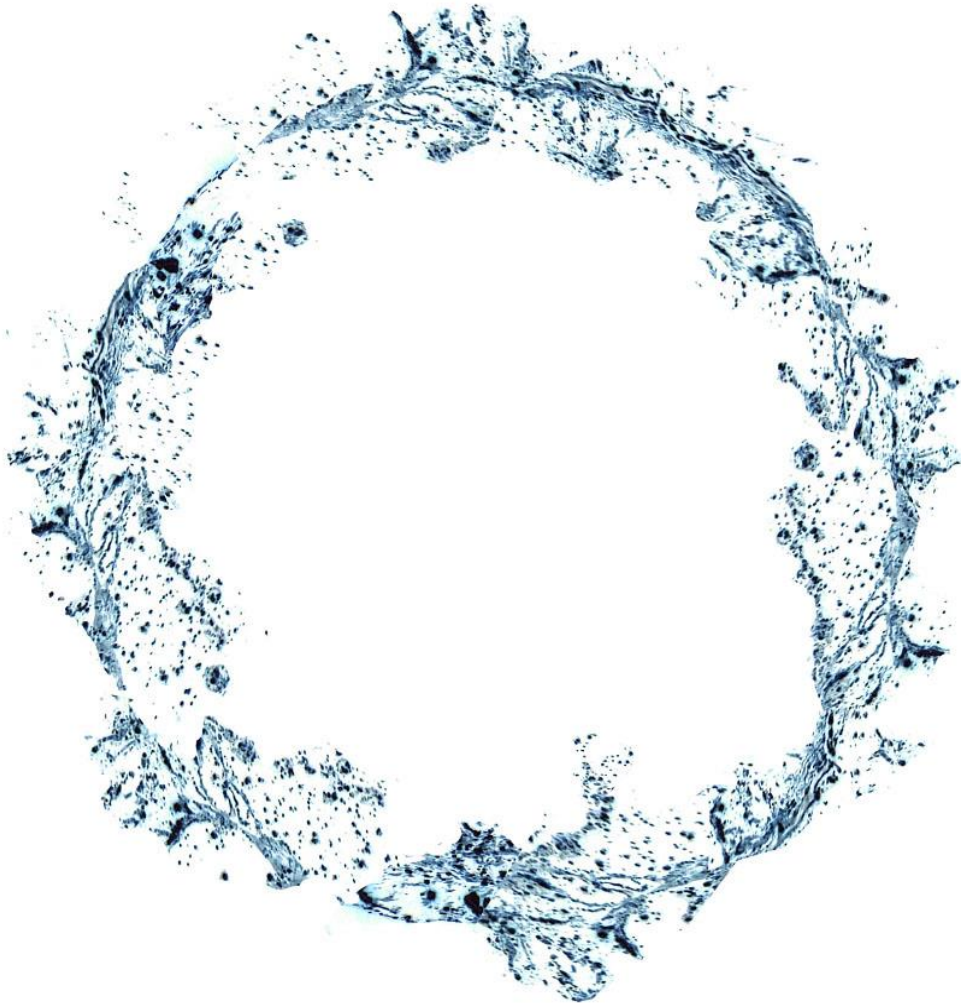
Appendix 5: Pension Fund Voting Summary

Appendix 6: Pensions Sub-Committee Forward Plan

Appendix 1: Scorecard at 31 December 2018

HAMMERSMITH AND FULHAM PENSION FUND QUARTERLY MONITORING

	Mar 18	Jun 18	Sep 18	Dec 18	Comment/ Report Ref if applicable
Value (£m)					
Value (£m)	997.6	1,035.3	1,055.6	986.6	Deloitte Report Gross of Fees
% return quarter	-2.5%	4.1%	1.6%	-5.7%	
% return one year	1.7%	5.2%	5.8%	-2.8%	
LIABILITIES					
Value (£m)					
Value (£m)	1,073.6	1,045.9	1,057.3	1,016,431	
Deficit (£m)	52.0	38.2	27.6	57.0	
Funding Level	95%	96%	97%	95%	
MEMBERSHIP					
Active members					
Active members	4,166	4,307	4,306	4,306	
Deferred beneficiaries	6,603	5,752	5,703	5,703	
Pensioners	4,920	4,986	5,018	5,018	
Employers	41	61	61	61	
CASHFLOW					
Cash balance					
Cash balance	£4.3m	£6.6m	£4.1m	£0.8m	Appendix 3
Variance from forecast	£0.6m	£0.6m	£0.4m	-£0.6m	
RISK					
No. of new risks					
No. of new risks	0	0	39	2	Appendix 4 – Risk Register
No. of ratings changed	0	0	0	0	
VOTING					
No. of resolutions voted on by fund managers					
No. of resolutions voted on by fund managers	5,711	5,711	4183	3182	Appendix 5 – LGIM, Ruffer & Majedie
LGPS REGULATIONS					
New consultations					
New consultations	None	None	None	MHCLG Pooling	Included in Item 2
New sets of regulations	None	None	IFRS9	None	



**London Borough of Hammersmith
& Fulham Pension Fund**

**Investment Performance Report to 31
December 2018**

Deloitte Total Reward and Benefits Limited
February 2019

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1 Market Background

1.1 Three months and twelve months to 31 December 2018

Global equity markets experienced a sharp downturn over the fourth quarter driven with economic data signalling a slowdown in economic activity across all global regions, fuelling fears of declining global growth. In addition, the potentially detrimental impact of monetary tightening, particularly in the US, and the ongoing US-China trade war continue to weigh on investors.

The UK equity market also fell over the fourth quarter too as the FTSE All Share Index delivered a negative return of -10.2%. As well as the aforementioned global slowdown and trade war fears, UK markets were also impacted by further uncertainty over Brexit as the Prime Minister struggled to gain support from MPs for her deal and the risk of a 'cliff-edge' no deal Brexit became more pronounced.

The FTSE 100 Index fell by 9.6% while the FTSE 250 lost 13.3% over the quarter as smaller more UK-centric companies suffered most from the Brexit related uncertainty, whilst larger international companies benefitted, to some extent, from sterling weakness which boosted the value of their overseas revenues. At the sector level, Health Care was the best performing sector returning -3.2%, while Industrials was the worst performing sector delivering a return of -17.5%.

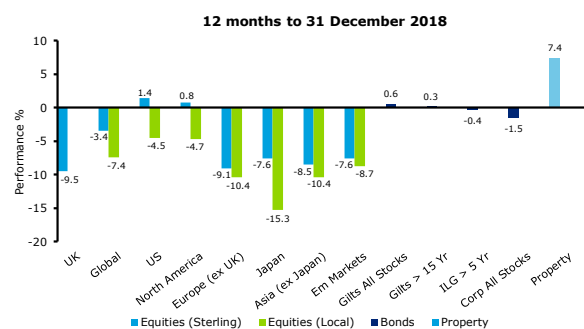
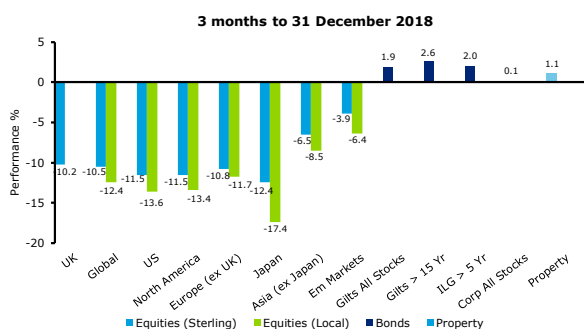
Global markets as a whole underperformed UK equities in both local currency terms (-12.4%) and sterling terms (-10.5%). The weakening of sterling over the quarter meant that currency hedging detracted from returns delivered to investors over the quarter. All regions experienced negative returns, with Japan (-17.4%) and the US (-13.6%) the worst performers when measured in local currency terms.

Nominal gilt yields fell across the curve and the All Stocks Gilts Index delivered a positive return of 1.9% over the fourth quarter. Real yields also fell with the Over 5 Year Index-Linked Gilts Index delivering a return of 2.0% over the same period. Credit spreads widened by around 30 bps over the fourth quarter, offsetting the effect of falling gilt yields. Corporate bond returns were broadly flat with the iBoxx All Stocks Non Gilt Index returning 0.1% over the quarter.

Over the 12 months to 31 December 2018, the FTSE All Share delivered a negative return of -9.5% following the sharp falls over the fourth quarter. At the sector level, all sectors experienced a negative absolute return with the exception of Health Care which returned 9.4%, whilst Telecommunications was the poorest performing sector delivering a negative return of -28.2%. Global equity markets outperformed the UK in both local (-7.4%) and sterling terms (-3.4%), driven by particularly strong performance in the US prior to the last 3 months of the year.

UK nominal gilts achieved modest returns over the 12 months to 31 December 2018, with income offsetting the slight increase in yields. The All Stocks Gilts Index returned 0.6% and the Over 15 Year Gilts Index returned 0.3% over the year. UK index-linked gilts delivered negative returns as the real yield curve steepened over the year. Real yields fell at shorter durations but rose at longer maturities with the Over 5 Year Index-Linked Gilts Index returning -0.4%. Corporate bonds underperformed gilts over the year to 31 December 2018 as credit spreads widened. The iBoxx All Stocks Non Gilt Index delivered a negative return of -1.5% over the year.

The IPD UK Monthly Property Index returned 1.1% for the quarter and 7.4% over the year to 31 December 2018. Whilst demand for UK property from both UK and overseas investors remains, and was the main driver behind the strong 12 month returns, the weaker performance in the fourth quarter suggests the property market is beginning to cool in light of Brexit uncertainty and a slowing UK economy.



2 Performance Overview

2.1 Investment Performance to 31 December 2018

Breakdown of Fund Performance by Manager as at 31 December	3	1	2 year	3 year	5 year	
Fund	month	year	p.a.	p.a.	p.a.	
Equity Mandate						
	Majedie	-11.2	-11.4	-3.6	4.2	3.6
FTSE All Share		-10.1	-9.4	1.2	6.0	4.0
<i>Difference</i>		-1.0	-2.1	-4.8	-1.8	-0.4
	LGIM Global Equity**	-8.4	-1.2	6.0	n/a	n/a
FTSE All World		-8.4	-1.2	6.1	n/a	n/a
<i>Difference</i>		0.0	0.0	0.0	n/a	n/a
Dynamic Asset Allocation Mandates						
	Ruffer	-5.6	-7.3	-3.4	1.6	2.4
3 Month Sterling LIBOR + 4% p.a.		1.2	4.7	4.5	4.5	4.5
<i>Difference</i>		-6.8	-12.0	-8.0	-2.9	-2.1
	Insight	-0.9	-3.7	-2.0	-0.6	n/a
3 Month Sterling LIBOR + 2% p.a.		0.7	2.7	2.5	2.5	n/a
<i>Difference</i>		-1.6	-6.5	-4.5	-3.1	n/a
Private Equity						
	Invesco	8.4	27.0	11.8	16.9	20.7
	Unigestion	5.8	11.2	9.5	11.5	9.1
Secure Income						
	Partners Group MAC	1.4	4.7	4.5	5.4	n/a
3 Month Sterling LIBOR + 4% p.a.		1.2	4.7	4.5	4.5	n/a
<i>Difference</i>		0.2	0.0	0.0	0.9	n/a
	Oak Hill Advisors	-4.1	-3.2	0.2	4.1	n/a
3 Month Sterling LIBOR + 4% p.a.		1.2	4.7	4.5	4.5	n/a
<i>Difference</i>		-5.2	-7.9	-4.3	-0.4	n/a
	Partners Group Infra	6.6	10.4	2.4	4.0	n/a
	Aviva Infra Income	5.3	n/a	n/a	n/a	n/a
Inflation Protection						
	M&G	0.6	4.2	5.7	9.9	n/a
RPI + 2.5% p.a.		1.1	5.2	5.9	5.6	n/a
<i>Difference</i>		-0.5	-1.0	-0.2	4.3	n/a
	Aberdeen Standard	1.6	7.0	8.9	7.6	n/a
FT British Government All Stocks		2.4	2.6	3.2	6.1	n/a
<i>Difference</i>		-0.8	4.4	5.7	1.5	n/a
Total Fund		-5.8	-3.2	1.6	6.5	6.6
Benchmark*		-3.3	0.9	4.7	7.3	5.2
<i>Difference</i>		-2.4	-4.1	-3.0	-0.8	1.4

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.

(*) The Total Assets benchmark is the weighted average performance of the target asset allocation.

(**) The LGIM Global Equity allocation was transferred to the LGIM Low Carbon Target Fund on 18 December 2018. Returns and benchmark returns reflect LGIM Global Equity performance and benchmark over the quarter to 18 December 2018 and LGIM Low Carbon Target Fund returns and benchmark from 18 December to 31 December 2018.

3 Total Fund

3.1 Investment Performance to 31 December 2018

	Last Quarter	One Year	Two Years	Three Years	Five Years
	(%)	(%)	(% p.a.)	(% p.a.)	(% p.a.)
Total Fund – Gross of fees	-5.7	-2.8	2.1	6.9	7.0
Net of fees ⁽¹⁾	-5.8	-3.2	1.6	6.5	6.6
Benchmark ⁽²⁾	-3.3	0.9	4.7	7.3	5.2
Net performance relative to benchmark	-2.4	-4.1	-3.0	-0.8	1.4

Source: Northern Trust. Relative performance may not sum due to rounding.

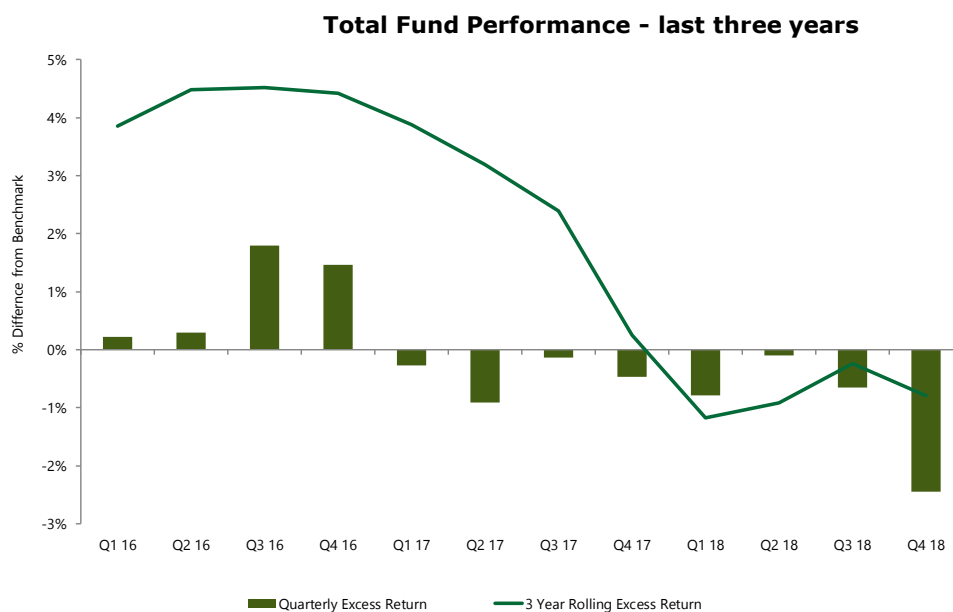
(1) Estimated by Deloitte

(2) Average weighted benchmark

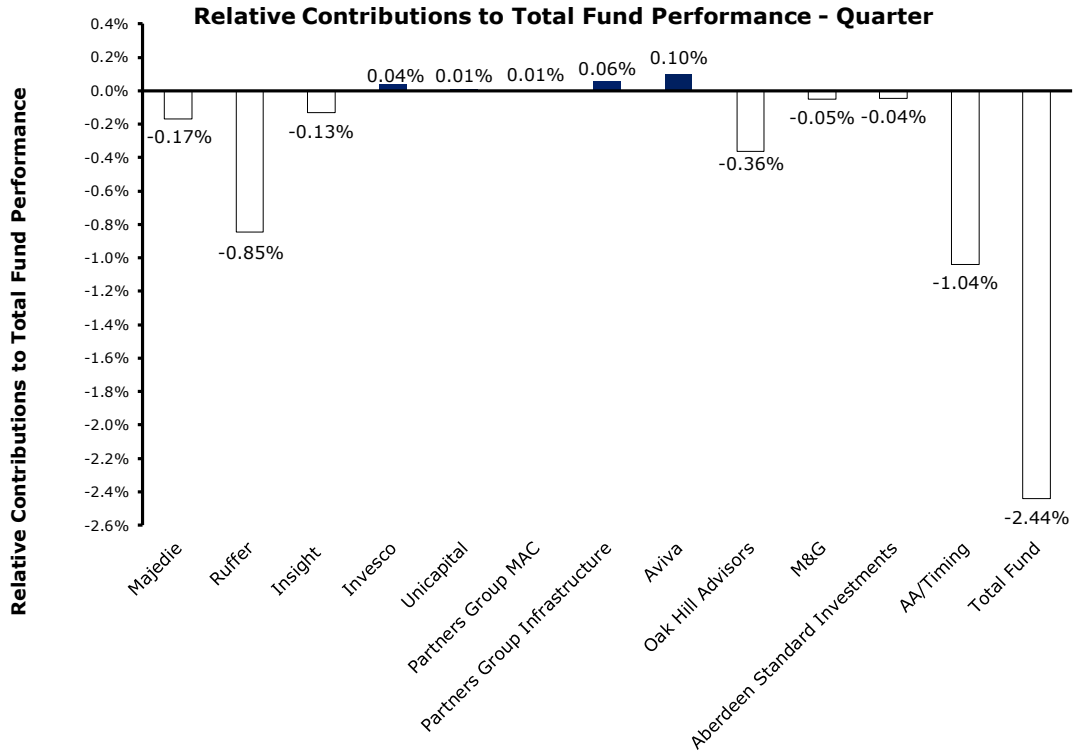
The Total Fund returned -5.8% over the quarter to 31 December 2018 on a net of fees basis, underperforming the fixed weight benchmark by 2.4%.

Over the 12 month period to the end of 2018 the Total Fund returned -3.2% net of fees, underperforming the benchmark by 4.1%. The Total Fund returns remained positive over the three and five year periods to 31 December 2018, underperforming the benchmark by 0.8% p.a. over the three year period whilst outperforming the benchmark by 1.4% p.a. over the five year period to 31 December 2018.

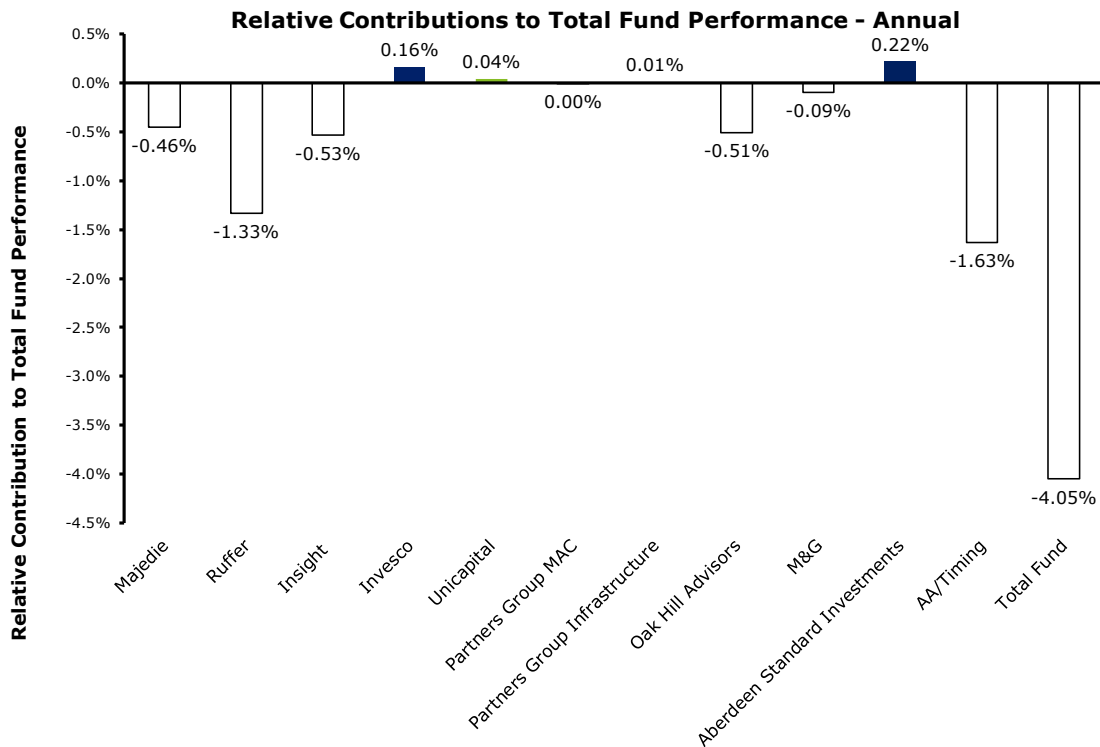
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 31 December 2018. The 3-year rolling excess return has remained negative over the quarter, declining slightly since the third quarter of 2018. The negative performance can be attributed to underperformance by Majadie, Ruffer and Oak Hill.



3.2 Attribution of Performance to 31 December 2018



Over the fourth quarter of 2018, the Fund underperformed the composite benchmark by 2.4% on a net of fees basis. This underperformance was largely due to underperformance from Ruffer, alongside underperformance from Oak Hill Advisors and Majedie.



The Fund has underperformed the composite benchmark by 4.1% over the 12 month period to 31 December 2018. This was largely as a result of underperformance from Ruffer. Majedie, Insight and Oak Hill Advisors also detracted from performance over the year to 31 December 2018. The negative contribution represented by the "AA/Timing" bar is primarily a function of the Fund having an overweight Dynamic Asset Allocation holding, with Ruffer and insight both underperforming their respective benchmarks over the year to 31 December 2018.

3.3 Asset Allocation

The table below shows the assets held by each manager as at 31 December 2018 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 Sept 2018 (£m)	31 Dec 2018 (£m)	30 Sept 2018 (%)	31 Dec 2018 (%)	
Majedie	UK Equity (Active)	168.9	117.7	16.0	11.9	15.0
LGIM	Global Equity (passive)	342.3	0.0	32.4	0.0	0.0
	Low Carbon Equity (passive)	0.0	339.9	0.0	34.4	30.0
	Total Equity	511.2	457.6	48.4	46.3	45.0
Ruffer	Absolute Return	130.9	123.8	12.4	12.5	10.0
Insight	Bonds Plus	87.0	86.3	8.2	8.7	10.0
	Total Dynamic Asset Allocation	217.9	210.1	20.6	21.3	20.0
Invesco	Private Equity	4.4	2.9	0.4	0.3	0.0
Unicapital	Private Equity	1.6	1.7	0.2	0.2	0.0
	Total Private Equity	6.0	4.6	0.6	0.5	0.0
Partners Group	Multi Asset Credit	38.3	28.2	3.6	2.9	5.0
Oak Hill Advisors	Diversified Credit Strategy	73.2	70.4	6.9	7.1	7.5
Partners Group	Direct Infrastructure	13.5	16.6	1.3	1.7	5.0
Aviva	Infrastructure Income	28.2	30.2	2.7	3.1	2.5
	Secure Income	153.2	145.4	14.5	14.7	20.0
M&G	Inflation Opportunities	102.3	103.0	9.7	10.4	10.0
Aberdeen Standard Investments	Long Lease Property	54.0	54.9	5.1	5.6	5.0
	Total Inflation Protection	156.3	157.9	14.8	16.0	15.0
LGIM	Liquidity Fund	10.9	10.9	1.0	1.1	0.0
	Total	1,055.6	986.6	100.0	100.0	100.0

Source: Northern Trust (Custodian) and have not been independently verified
 Figures may not sum to total due to rounding

At the beginning of the quarter, the Fund fully disinvested from the Majedie UK Focus Fund and the Majedie Tortoise Fund. This amounted to c. £35m and was reinvested in the LGIM MSCI Low Carbon Equity Fund.

3.4 Yield Analysis as at 31 December 2018

The following table shows the running yield on the Fund's investments:

Manager	Asset Class	Yield as at 31 December 2018
Majedie	UK Equity	4.15%
LGIM	Global Equity	0.26%*
Ruffer	Dynamic Asset Allocation	1.10%
Insight	Dynamic Asset Allocation	1.36%
Partners Group MAC	Secure Income	3.65%**
Oak Hill Advisors	Secure Income	8.10%
M&G	Inflation Protection	2.53%
Aberdeen Standard Investments	Inflation Protection	5.50%
	Total	2.01%

*Benchmark yield is 2.8% (represents the income that would be generated).

**Yield as at 30 September 2018.

4 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
Ruffer	Absolute Return	Departure of either of the co-portfolio managers from the business Any significant change in ownership structure	1
Insight	Bonds Plus	A significant increase or decrease to the assets under management with no set limits Significant changes to the team managing the Fund	1
LGIM	Low Carbon	Major deviation from the benchmark return Significant loss of assets under management	1
Partners Group	Multi Asset Credit	Significant changes to the investment team responsible for the Fund *Note the mandate is subject to a 7 year lock-up period	1
	Direct Infrastructure	Significant changes to the investment team responsible for the Fund. *Note the mandate is subject to a 10 year lock-up period	1
Aviva Investors	Infrastructure Income	Significant changes to the investment team responsible for the Fund	1
Oak Hill Partners	Diversified Credit Strategy	Significant changes to the investment team responsible for the Fund. Significant changes to the liquidity of underlying holdings within the Fund.	1
M&G	Inflation Opportunities	If the Fund's portfolio manager Gary Parker was to leave the business or cease to be actively involved in the Fund, this would trigger a review of the Fund. Failure to find suitable investments within the initial two year funding period.	1
Aberdeen Standard Investments	Long Lease Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over. A build up within the Fund of holdings with remaining lease lengths around 10 years.	1

4.1 London CIV

Business

As at 31 December 2018, the London CIV had 14 sub-funds and assets under management of £7,447m. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £0.2bn over the quarter to £17.5bn.

Personnel

Following quarter end it was announced that Mike O'Donnell has been appointed as the London CIV's Chief Executive, subject to FCA approval with the intention to start the role on 4 March 2019. Mike is a senior finance professional and non-executive director with a background in local government finance, including twelve years as Executive Director responsible for Finance at LB Camden and nine month seconded to Birmingham City Council. He has chaired LFAC and been president of SLT the representative group for London s151 officers.

This appointment allows the London CIV to move forward with the recruitment of a CIO. Mark Hyde-Harrison, interim CEO, will work with Mike to ensure a smooth transition and will leave his role at the end of March.

Deloitte view – It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders. We are continuing to monitor developments on the business side as well as the new fund launches.

4.2 Majedie

Business

The total assets under management for Majedie was c. £11.8bn as at 31 December 2018, a decrease of c. £2.3bn over the fourth quarter of 2018. This large decrease in assets under management is attributable to a combination of some clients de-risking and a number of councils transferring into different pools, in addition to the fall in UK equity markets

Personnel

There were no significant team or personnel changes over the quarter to 31 December 2018.

In January 2019, a decision has been taken to replace Richard Staveley, manager of the Smaller Companies element of the UK Equity Fund. This represents c. 7% of UK Equity strategy client portfolios. Majedie felt that performance of this element of the portfolio has been disappointing and a change of manager is now appropriate. Management of the other 93% of the strategy assets remains unchanged. The UK Focus strategy is unaffected. A replacement is being sought, with Majedie stating that they will keep clients and consultants apprised with the progress on this front.

Deloitte view – We continue to rate Majedie positively for its UK Equity capabilities and have set up a meeting with Majedie regarding recent performance and team changes.

4.3 LGIM

Business

As at 30 June 2018, Legal & General Investment Management (“Legal & General”) had total assets under management (“AuM”) of £985bn, an increase of £2bn since 31 December 2017.

Personnel

Over the quarter, Roger Bartley, Vice Chairman of Investments, retired and Kaye Maguire, Chief Resourcing & Legal Officer also left. Neil Perry who had previously been HR Director replaced Kaye.

Following quarter end, Siobhan Boylan, Chief Financial Officer, left the firm and has been subsequently replaced by Richard Lee. Richard was the Group Performance Director and had previously held the positions of CFO and CRO for Legal & General Retirement.

Also, following quarter end, Will Riley was appointed Head of Solutions and Sonja Laud was appointed Deputy CIO. Will held a number of senior portfolio management roles at BlackRock before joining and Sonja joins from Fidelity International, where she was head of equity.

At the Index team level, there were no new joiners or leavers.

Deloitte View

We continue to rate Legal & General positively for its passive capabilities.

4.4 Ruffer

Business

As at 31 December 2018, Ruffer’s total assets under management was £20.9bn, a decrease of 0.9bn over the quarter.

Personnel

There were no significant team or personnel changes over the fourth quarter of 2018.

Deloitte view – The Ruffer product is distinctive within the universe of diversified growth managers with the manager willing to take contrarian, long term positions, where necessary drawing on the expertise of external funds.

4.5 Insight

Business

Insight's total AuM at 31 December 2018 was c. £621bn, an increase from the previous quarter (c. £604bn). The total assets in the Insight's Bonds Plus fund decreased by c. £0.2bn over the quarter, with total assets at £3.9bn as at 31 December 2018.

Personnel

Insight made no changes to the Bonds Plus team over the quarter.

Deloitte view – Performance of the Bonds Plus fund has been disappointing. We are currently conducting a review of the product.

4.6 Partners Group

Business - Multi Asset Credit

The net asset value of the MAC Fund was c. £142m as at 31 December 2018, a fall of c. £17m since 30 September 2018 due to distributions. The investment period for the 2014 MAC vintage finished at the end of July 2017, and the fund is continuing to make distributions back to investors in 2018.

Business - Direct Infrastructure

Total commitment value as at 30 September 2018 was c. €1,080m as the Fund.

The Fund ended the fourth quarter of 2018 at c. 30.7% drawn down, with commitment level increasing to 55.6% from 48.3% over the quarter.

Deloitte View - We continue to rate Partners Group for its private market capabilities.

4.7 Oak Hill Advisors – Diversified Credit Strategy (DCS)

Business

Oak Hill Advisors' total assets under management rose to \$32.8bn as at 1 November 2018, an increase of c. \$0.7bn over the quarter.

During the fourth quarter of 2018, the Fund had c. \$279m of net outflows.

Personnel

There were no notable changes to the management team of the DCS Fund during the quarter. On an organisational level, Oak Hill Advisors saw six partner promotions; Adam Kertzner was promoted to Senior Partner, with Nadav Braun, Alexis Atteslis, Lucy Panter, Musa Sönmez and Gregory Rubin promoted to Partner.

Deloitte view – We are comfortable with how the strategy is being managed and the level of risk within the strategy.

4.8 M&G – Inflation Opportunities Fund

Business

M&G's Inflation Opportunities Fund V Fund held total assets under management of c. £517m as at 31 December 2018, an increase of c. £4m over the quarter.

Personnel

There were no significant changes to the M&G Inflation Opportunities Fund team over the quarter.

Deloitte view –The strategy has a high allocation to ILGs and has not managed to source as many 'inflation linked opportunities' as originally expected given the change in market conditions. The manager expects to increase the allocation to long lease property and, while we are positive on this asset class, it does create overlap with the Fund's Long Lease Property mandate with Standard Life Investments. As such, the Committee may wish to consider whether there are alternative options that could be considered for all or part of the allocation in this strategy which offer at least a degree of "inflation proofing".

4.9 Aberdeen Standard Investments – Long Lease Property

Business

The Fund's assets under management increased by £0.1bn to c. £2.4bn as at 31 December 2018.

Personnel

There were no team changes for either the Long Lease Property Fund over the fourth quarter of 2018.

Process

Since the two businesses merged, ASI has put in place a formalised process where all potential transactions are reviewed and an "allocation policy" applied where interest is expressed in the investment by more than one fund/client portfolio.

Deloitte View – We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

4.10 Aviva Investors

Business

The Aviva Infrastructure Income Fund had a total subscription value of approximately £1,235m from initial commitments plus re-invested distributions as at 30 September 2018. No investor commitments were received over the fourth quarter, although the Fund had distributions re-invested of an approximate value of c. £10m. The undrawn amount as at 31 December 2018 was £220.7m.

Personnel

There were no changes to the Infrastructure Fund team over the quarter. More recently, two additional analysts have joined during January 2019.

Deloitte View - We continue to rate Aviva Investors positively for its infrastructure capabilities.

5 London CIV

5.1 Investment Performance to 31 December 2018

As at 31 December 2018, the London CIV had 14 sub-funds and assets under management of £7,447m. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £0.2bn over the quarter to £17.5bn.

The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 September 2018 (£m)	Total AuM as at 31 December 2018 (£m)	Number of London CIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	526	467	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	120	106	1	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,371	2,092	12	11/04/16
LCIV Global Equity	Global Equity	Newton	616	557	3	22/05/17
LCIV LV Global Equity Focus	Global Equity	Longview Partners	683	700	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	235	222	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	186	276	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	283	249	2	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	315	308	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	637	627	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	912	854	10	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	194	182	2	16/12/16
LCIV MAC	Fixed Income	CQS	492	639	9	31/5/18
LCIV Global Bond	Fixed Income	PIMCO	-	167	2	30/11/18
Total			7,572	7,447		

The London CIV launched its second Fixed Income sub fund over the quarter to 31 December 2018. The initial investment in the Global Bond sub-fund is to be managed by PIMCO. Over the quarter, the Emerging Market Equity sub-fund (managed by Henderson) and the Multi Asset Credit sub-fund (managed by CQS) both added three new London Boroughs to their client list.

6 Majedie – UK Equity

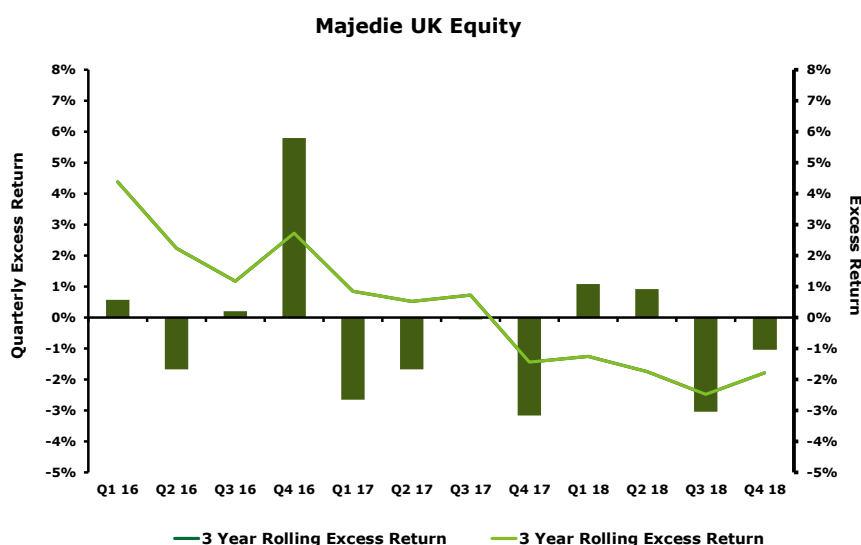
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund (no more than 30%), the UK Focus Fund and a holding in Majedie's long/short equity fund, Tortoise (no more than 10%).

6.1 UK Equity – Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) ⁽¹⁾	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	-11.0	-10.9	-3.1	4.8	4.0
Net of fees ⁽¹⁾	-11.2	-11.4	-3.6	4.2	3.6
Benchmark	-10.1	-9.4	1.2	6.0	4.0
Target	-9.6	-7.4	3.2	8.0	6.0
Net performance relative to Benchmark	-1.0	-2.1	-4.8	-1.8	-0.4

Source: Northern Trust

(1) Estimated by Deloitte



The strategy underperformed its benchmark by 1.0% over the quarter to 31 December 2018, delivering a negative return of -11.2% on a net of fees basis. A very poor fourth quarter for equity markets significantly affected the one-year absolute return of the strategy, returning -11.4% net of fees against a benchmark return of -9.4%. Over both the three and five years to 31 December 2018, the Strategy underperformed the benchmark by 1.8% and 0.4% respectively.

6.2 Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 48.5% of the Fund and are detailed below.

Top 10 holdings as at 31 December 2018	Proportion of Majedie Fund
Royal Dutch Shell	8.1%
BP	7.8%
Majedie Asset Management Special	7.6%
Tesco	4.8%
GlaxoSmithKline	4.6%
HSBC	3.4%
Orange	3.3%
WM Morrison	3.3%
Centrica	3.0%
Pearson	2.6%
Total	48.5%

Note: The numbers in this table may not sum due to rounding.

Source: London CIV.

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 31 December 2018.

Top 5 contributors as at 31 December 2018	Contribution (bps)
Gold Fields	+0.49
Acacia Mining	+0.38
Barrick Gold	+0.26
Agnico Eagle Mines	+0.21
Koninklijke	+0.13

Top 5 detractors as at 31 December 2018	Contribution (bps)
Ensco	-0.57
Oceaneering	-0.55
Diamond Offshore Drilling	-0.52
William Hill	-0.37
Tullow Oil	-0.32

The Fund's holdings in Ensco plc, Oceaneering International and Diamond Offshore Drilling Inc provided the biggest detractions to performance over the quarter to 31 December 2018.

7 Legal and General – Global Equity

Legal and General Investment Manager (“LGIM”) was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

7.1 Global Equity – Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)
LGIM – Gross of fees	-8.4	-1.2	6.1
<i>Net of fees⁽¹⁾</i>	-8.4	-1.2	6.0
Benchmark	-8.4	-1.2	6.1
Net Performance relative to Benchmark	0.0	0.0	-0.1

Source: LGIM. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte

The LGIM Global Equity allocation was transferred to the LGIM Low Carbon Target Fund on 18 December 2018. Returns and benchmark returns reflect LGIM Global Equity performance and benchmark over the quarter to 18 December 2018 and LGIM Low Carbon Target Fund returns and benchmark from 18 December to 31 December 2018.

Over the fourth quarter, the Fund performed in line with the benchmark on a net of fees basis, delivering an overall negative return. Over the 12 month period to 31 December 2018, the Fund successfully tracked its benchmark, whilst slightly underperforming its benchmark over the two year period.

8 Ruffer – Absolute Return

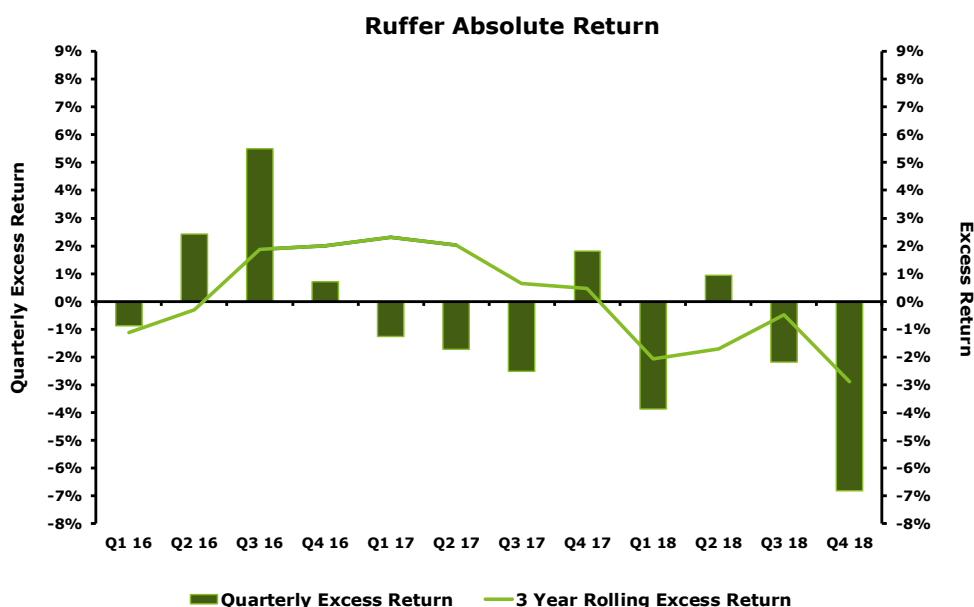
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

8.1 Dynamic Asset Allocation – Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) ⁽¹⁾	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	-5.4	-6.5	-2.7	2.5	3.3
Net of fees ⁽¹⁾	-5.6	-7.3	-3.4	1.6	2.4
Benchmark / Target	1.2	4.7	4.5	4.5	4.5
Net performance relative to Benchmark	-6.8	-12.0	-8.0	-2.9	-2.1

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Over the fourth quarter of 2018, Ruffer delivered a return of -5.6% net of fees, underperforming the Libor +4% p.a. target by 6.8%. This takes the 12 month and 3 year returns to -7.3% and 1.6% p.a. respectively, underperforming the target over both periods.

A disappointing quarter was attributed to the Fund's equity holdings which represented c. 48% of the portfolio exposure at the start of the quarter. The Fund's equities saw declines in October and November, generally coming from cyclicals and financials with protective strategies only offering a limited counter. Equity exposure was cut towards the end of the quarter, particularly Japanese equity exposure with Ruffer more mindful on inflation prospects.

Over the 12 month period to 31 December 2018, the Fund underperformed its target by 12.0%. Much of the drag at the beginning of the year came from the portfolio's VIX positions, with very little volatility in the market. However, despite equity markets declining towards the end of the year, the positive impact of these protection strategies was somewhat limited as the fall in equity markets was not enough for Ruffer's options protection to have a meaningful impact. Ruffer's equity exposure, although cautious in magnitude, was largely focused on cyclical and financial stocks; these fell as much, if not more than broader indices and therefore detracted from performance considerably.

9 Insight – Bonds Plus

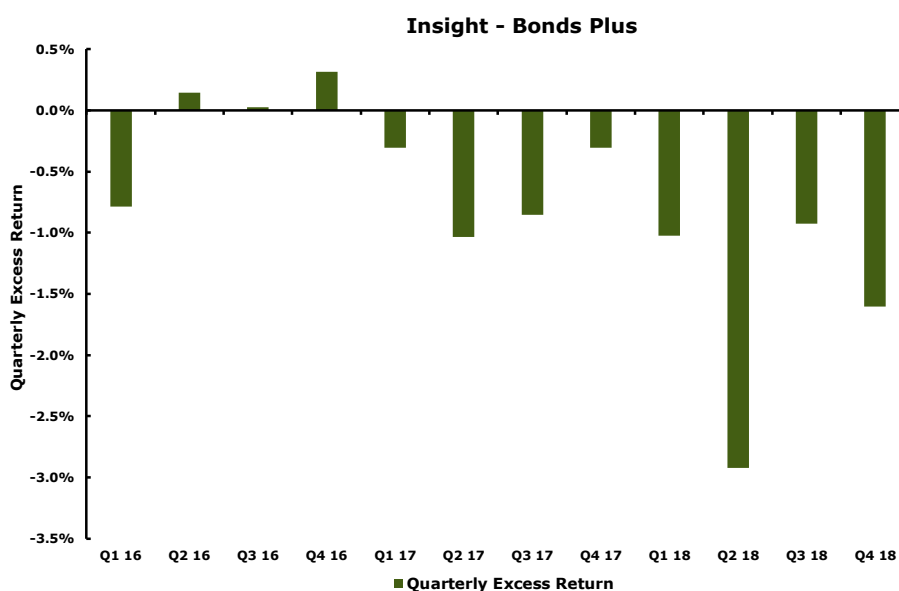
Insight was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

9.1 Absolute Return – Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
Insight - Gross of fees	-0.8	-3.3	-1.5	-0.1
Net of fees ⁽¹⁾	-0.9	-3.7	-2.0	-0.6
Benchmark / Target	0.7	2.7	2.5	2.5
Net performance relative to Benchmark	-1.6	-6.5	-4.5	-3.1

Source: Northern Trust. Relative performance may not tie due to rounding

(1) Estimated by Deloitte



Over the quarter to 31 December 2018, Insight delivered a negative return of 0.9% net of fees, underperforming its target by 1.6%.

A combination of factors have been attributed to the negative performance seen during the fourth quarter of 2018. Similar to the previous quarter, a US yield curve flattener position detracted from performance (short 2 year versus long 30 year). Exposure to a 30 year 'break-evens' was also a key detractor to performance.

Insight's expectation that strong economic growth in Europe would lead to the unwinding of quantitative easing across 2018, potentially preparing the market for lower interest rates, was essentially incorrect. Slightly lower growth combined with political volatility in Italy delayed the start of monetary tightening.

The Bonds Plus Fund has delivered disappointing returns since inception. Following a meeting with Insight, we understand that the key detractors from performance have come from a number of the fund's strategic views on market. In particular, a number of the longer term country allocation views that was deemed attractive (when trades were initially put on) have moved against them under the current geopolitical environment. Despite the mark-to-market, the manager continues to believe in the positions they have put on and have not cut their positions. Although performance has been weak the manager continues to adopt the same investment process and are not taking additional risk in order to deliver the target return.

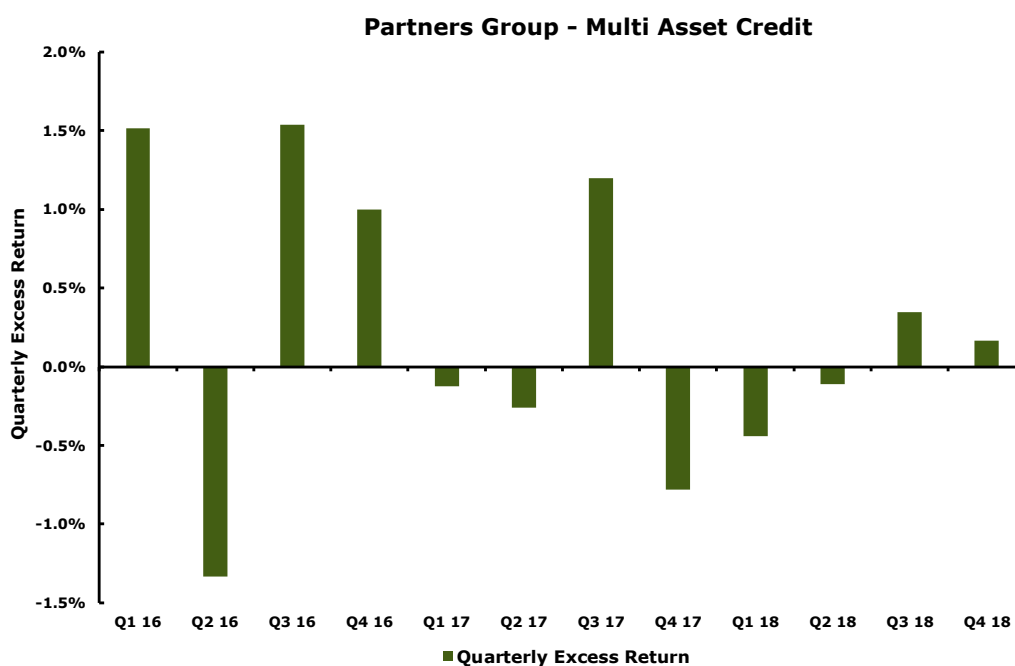
10 Partners Group – Multi Asset Credit

Partners Group was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

10.1 Multi Asset Credit - Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
Partners Group MAC - Gross of fees	1.6	5.6	5.4	6.3
Net of fees ⁽¹⁾	1.4	4.7	4.5	5.4
Benchmark / Target	1.2	4.7	4.5	4.5
Net performance relative to Benchmark	0.2	0.0	0.0	0.9

Source: Northern Trust. Relative performance may not tie due to rounding.



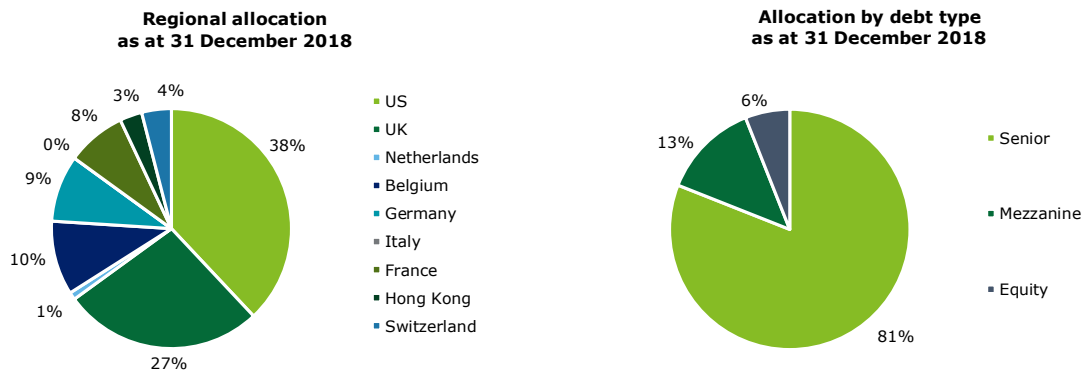
The Partners Multi-Asset Credit mandate outperformed its benchmark by 0.2% on a net of fees basis over the fourth quarter of 2018.

Over the 12 month period to 31 December 2018, the Fund delivered a positive return of 4.7% net of fees; successfully tracking its sterling based target.

The Fund has outperformed its target by 0.9% p.a. over the three-year period to 31 December 2018, delivering a positive return of 5.4% p.a.

10.2 Asset Allocation

The charts below show the regional split of the Fund as at 31 December 2018.



Note: Based on information provided by Partners Group.

The table below shows details of the Fund's five largest holdings based on net asset value as at 31 December 2018.

Investment	Description	Type of Debt	Tranche	Maturity Date	Current IRR (%)	NAV (£m)	% of NAV
Mirion Technologies, Inc.	US Electronic company	Corporate	First Lien	31 Mar 2022	6.7	8.5	10.6%
		Corporate	Second Lien	31 Mar 2023	9.5	6.6	
AS Adventure	Large European specialist multi-brand outdoor retail group	Corporate	First Lien	28 Apr 2022	5.5	14.6	10.3%
IDEMIA	Security and identity solutions company	Corporate	Mezzanine	31 May 2027	12.5	11.0	7.8%
Sabre Industries	US infrastructure products and services provider	Corporate	First Lien	29 May 2022	6.6	10.1	7.1%
Survitec Group, Ltd	UK Manufacturer of personal survival products	Corporate	First Lien	14 March 2022	6.0	9.5	6.7%

Note: Information provided by Partners Group. Current IRR is net of cost and fees of the investment partner but gross of Partners Group fees. For investments with a holding period less than 12 months, the IRR is not annualised.

10.3 Fund Activity

To date, the Fund has made investments in 54 companies, of which 32 have been fully realised as two further realisations took place during the fourth quarter. The Fund's 3 year investment period ended in July 2017 and, therefore, any investments realised have subsequently been repaid to investors. As a result, the distribution rate has been higher since.

In October, the MAC 2014 Fund realised its full debt investment in Alltub, an aluminum tube manufacturer, in conjunction with One Equity Partners' acquisition of the business. In November, the Fund fully realised its second lien investment in VFS Global, an outsourcing and technology services specialist, although the Fund still retains exposure to the company through its first lien debt investment which is still invested.

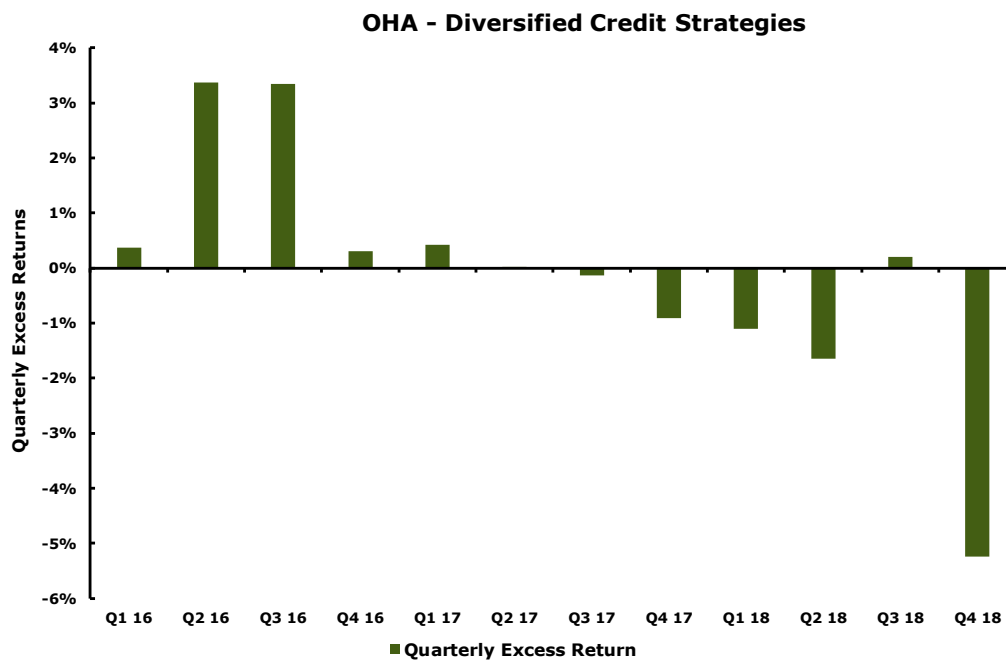
11 Oak Hill Advisors – Diversified Credit Strategies Fund

Oak Hill Advisors was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

11.1 Diversified Credit Strategies - Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (%)	Three Years (% p.a.)
OHA – Gross of fees	-3.9	-2.5	0.9	4.8
Net of fees ⁽¹⁾	-4.1	-3.2	0.2	4.1
Benchmark / Target	1.2	4.7	4.5	4.5
Net Performance relative to Benchmark	-5.2	-7.9	-4.3	-0.4

Source: Northern Trust. Relative performance may not tie due to rounding.



Over the fourth quarter of 2018, the Diversified Credit Strategies Fund returned -4.1% on a net of fees basis, underperforming its target by 5.2%. The Fund underperformed a blended benchmark of high yield and leveraged loans by 0.6% over the quarter to 31 December 2018.

Over the 12 month period to 31 December 2018, the Fund returned -3.2% net of fees, underperforming its target by 7.9%. This was primarily due to the poor performance seen in the High Yield and Leveraged Loans space, with both performing negatively over the fourth quarter. Over the longer period of three years to the end of 2018, the Fund has delivered a positive return of 4% p.a. but has lagged its target by 0.4% p.a. over the same period.

12 Partners Group – Direct Infrastructure

Partners Group was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

12.1 Direct Infrastructure - Investment Performance to 31 December 2018

Activity

During the fourth quarter of 2018, the Fund did not add any new investments to its portfolio with the most recent investment taking place in September 2018.

The Fund had a commitment level of 55.6% as at 30 September 2018.

Capital Calls and Distributions

10 December

- The Fund issued its 18th capital call, drawing down an additional c. 2.0% (€22m).
- Total drawn down following this call was c. 34.9%.

Pipeline

Partners Group currently has two opportunities in its near-term investment pipeline:

- A European air cargo logistics provider; and
- A North American support infrastructure in the natural gas value chain.

Investments Held

The table below shows a list of the investments held by the Partners Group Direct Infrastructure Fund as at 31 December 2018.

Investment	Description	Type	Sector	Country	Commitment Date
Fermaca	Gas infrastructure operator based in Mexico.	Lead	Energy	Mexico	July 2015
Silicon Ranch	Solar platform based in US	Lead	Solar Power	USA	April 2016
Axia NetMedie	Internet and data network provider based in Canada and France	Lead	Communication	Canada & France	July 2016
Merkur Offshore	Wind farm based in German North Sea.	Lead	Wind Power	Germany	August 2016
Green Island Renewable Solar Platform	Solar power platform in Taiwan.	Lead	Solar Power	Taiwan	September 2016
High Capacity Metro Trains PPP	Delivery and maintenance of rolling stock for Australian State government.	Co-lead	Transportation	Australia	November 2016
USIC	Utility location services	Lead	Utilities	USA	August 2017
Arcanum Infrastructure	Develops and acquires infrastructure assets to supply strategic materials	Lead	Chemical Infrastructure	North America	tbc
Borssele III/IV	Wind farm based in Netherlands	Lead	Wind Power	Netherlands	tbc
Grassroots Renewable Energy Platform	Wind/solar/energy storage platform	Lead	Renewable Energy	Australia	tbc
Murra Warra Wind Farm	Onshore windfarm	Lead	Renewable Energy	Australia	tbc
Superior Pipeline Company	LNG pipeline platform	Co-lead	Energy Infrastructure	North America	tbc
Techem AG	Energy metering services provider	Lead	Infrastructure Services	Germany	tbc

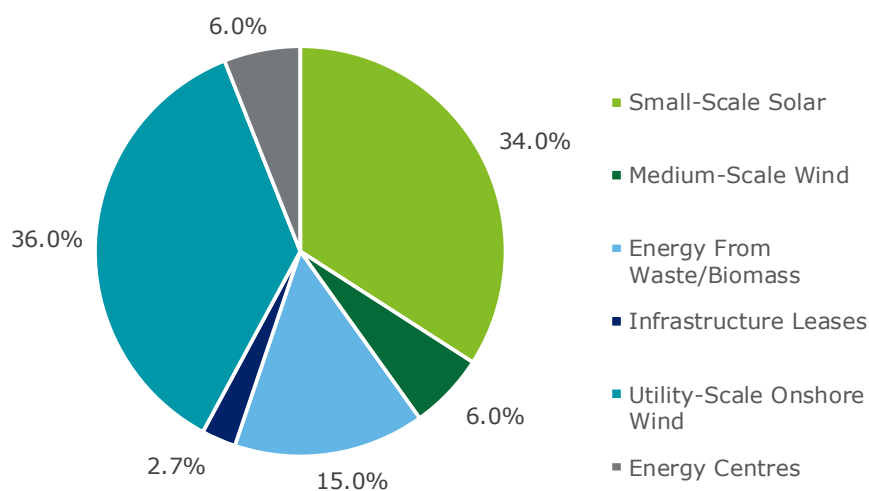
13 Aviva Investors – Infrastructure Income

Aviva Investors was appointed to manage an infrastructure income mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 6% p.a. The manager has an annual management fee and performance fee.

13.1 Infrastructure Income - Investment Performance to 30 September 2018

Sector Breakdown

The chart below shows the split of the portfolio by sector.



Source: Aviva Investors.

Small-scale solar and utility-scale onshore wind make up c. 70% of the portfolio.

Holdings

The top 10 holdings in the Infrastructure Income Fund account for c. 61.3% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2018	Asset	Proportion of Fund
Brockloch Rig Wind Farm	Utility-scale Onshore Wind	10.9%
Turncole Wind Farm	Utility-scale Onshore Wind	6.4%
Minnycap Energy	Utility-scale Onshore Wind	6.3%
Aviva Investors Energy Centres No. 1	Energy Centres	6.2%
EES Operations 1	Small-scale Solar PV	5.8%
HomeSun	Small-scale Solar PV	5.7%
Biomass UK No. 1	Biomass	5.4%
Biomass UK No. 2	Biomass	5.4%
Biomass UK No. 3	Biomass	5.0%
Jacks Lane	Utility-scale Onshore Wind	4.3%
Total		61.3%

Note: The numbers in this table may not sum due to rounding.

Source: Aviva Investors.

Pipeline

Aviva currently has a "priority pipeline", representing transactions which the Fund has exclusivity, are in due diligence or are strongly positioned due to Aviva's leading position in the relevant sector or relationship with the opportunity partner. The opportunities within the priority pipeline amount to c. £604m as at 30 September 2018, with the general expectation to reach a closing in 12 months. Within the pipeline the largest sectors are c. 38% utility-scale onshore wind assets, c. 33% energy from waste/biomass assets and c. 23% infrastructure leases.

During the fourth quarter of 2018, the Fund completed a total of c. £215m in transactions between two projects, both of which occurred in October. A total of c. £152m was committed to construct a 25MWh energy from waste plant in Hooton, Merseyside and the Fund completed on an associated infrastructure lease of c. £63m.

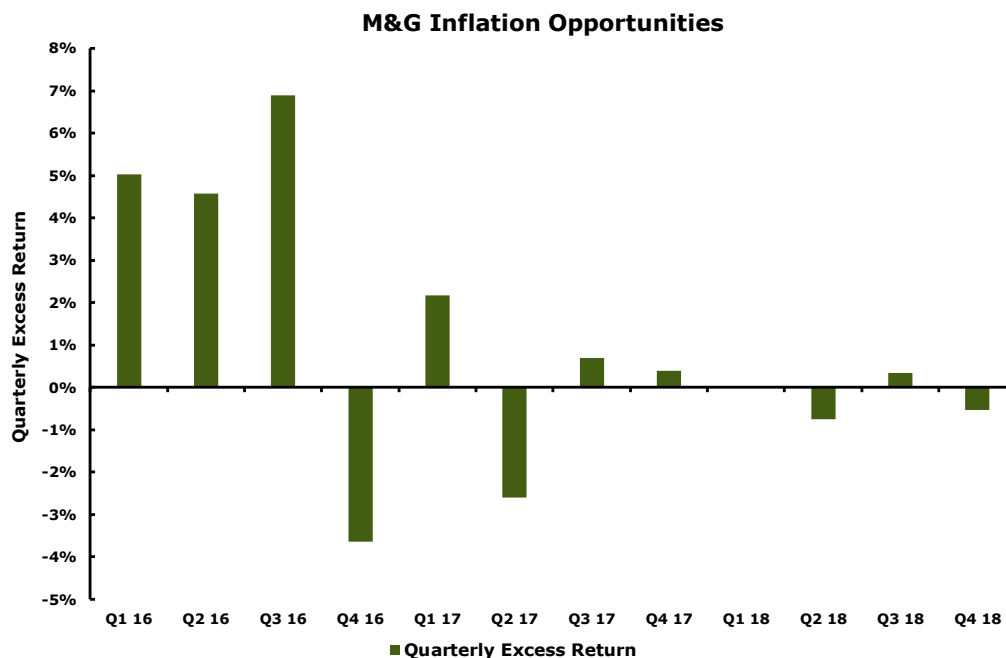
14 M&G – Inflation Opportunities

M&G was appointed to manage an inflation opportunities mandate with the aim of outperforming the RPI benchmark by 2.5% p.a. The manager has an annual management fee which is calculated based on the underlying assets

14.1 M&G Inflation Opportunities - Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
M&G Inflation Opportunities – Gross of fees	0.7	4.5	6.0	10.2
Net of fees ⁽¹⁾	0.6	4.2	5.7	9.9
Benchmark / Target	1.1	5.2	5.9	5.6
Net Performance relative to Benchmark	-0.5	-1.0	-0.2	4.3

Source: Northern Trust. Relative performance may not tie due to rounding.



The Fund returned 0.6% net of fees over the quarter to 31 December 2018, underperforming the performance target by 0.5%. Over the 12 month period to 31 December 2018, the Fund delivered a net positive return but underperformed the benchmark by 1.0%. However, the Fund remains ahead of target over the 3 year period to 31 December 2018, outperforming its target by 4.3% p.a.

The Fund increased its exposure to long lease property over the quarter to c. 38%, with long lease property remaining the largest component of the portfolio as at 31 December 2018. The index-linked gilts exposure within the portfolio continued to reduce over the quarter, with portfolio exposure decreasing to c. 24%. The income strips and ground rents exposures both increased over the quarter to 31 December 2018 to c. 25% and c. 11% respectively.

15 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

15.1 Long Lease Property - Investment Performance to 31 December 2018

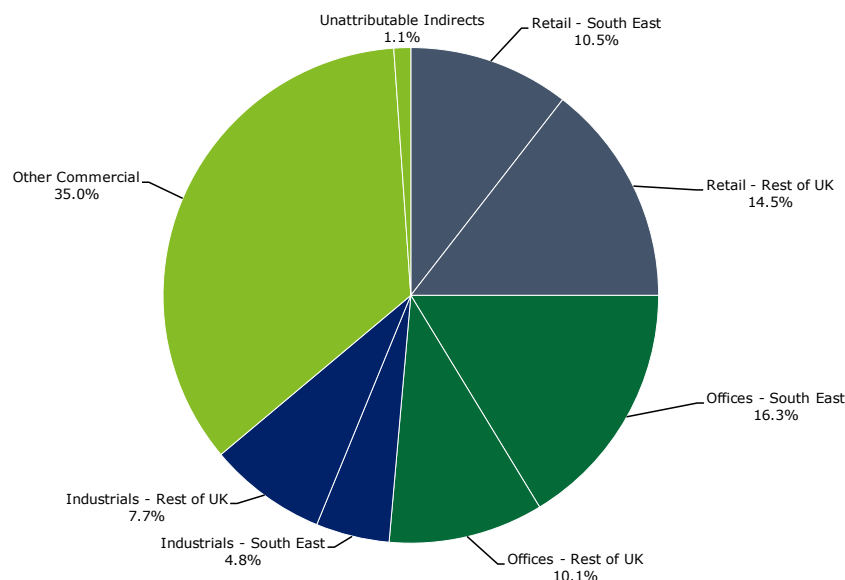
	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
ASI Long Lease Property – Gross of fees	1.7	7.5	9.5	6.5
<i>Net of fees⁽¹⁾</i>	1.6	7.0	8.9	7.6
Benchmark / Target	2.4	2.6	3.2	6.1
Net Performance relative to Benchmark	-0.8	4.4	5.7	1.5

Source: Northern Trust. Relative performance may not tie due to rounding.

The ASI Long Lease Property Fund has delivered a net of fees return of 1.6% over the fourth quarter of 2018, underperforming the FTSE Gilt All Stocks Index + 2% benchmark by 0.8%.

15.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 December 2018 is shown in the graph below.



The Funds allocation to the office sector increased over the quarter from 24.3% as at 30 September 2018 to 26.4% as at 31 December 2018. Over the same period the holdings in the retail sector fell by 0.9% to 25.0% and other commercial also fell by 1.1% to 35% as at the end of the fourth quarter.

15.3 Sales and Purchases

Over the fourth quarter of 2018:

- The Fund completed the purchase of Lloyds Bank Plc, Chester, for c. £67m. Representing a net initial yield of 5.4% with an unexpired term of 25 years.
- The Fund also completed on three holiday parks in Suffolk and Kent operated by Park Holidays UK Limited for c. £25m, reflecting a net initial yield of 3.0%. This was an off-market transaction given ASI's previous relationship with the company, acquiring another portfolio in 2017. The transaction was structured on a ground rent basis with a lease term of 99 years and annual rent set at 12% of the underlying earnings for each park.

Following quarter end, the Fund exchanged on a 20 year unexpired term office for c. £47m. The purchase of St James Place, Cirencester, will provide a net initial yield of 4.0%.

16 Legal and General – Low Carbon Target

Legal and General Investment Manager (“LGIM”) was appointed to manage a low carbon portfolio with the aim of replicating the performance of the MSCI World Low Carbon Target Index. The manager has an annual management fee, in addition to On Fund Costs.

16.1 Low Carbon Target – Investment Performance to 31 December 2018

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)
LGIM – Gross of fees	-11.2	-2.8	11.9
Benchmark (MSCI World Low Carbon Target Index)	-11.2	-2.7	11.9
MSCI World Equity Index	-11.2	-2.5	12.2

Source: Legal & General and MSCI. Relative performance may not tie due to rounding.

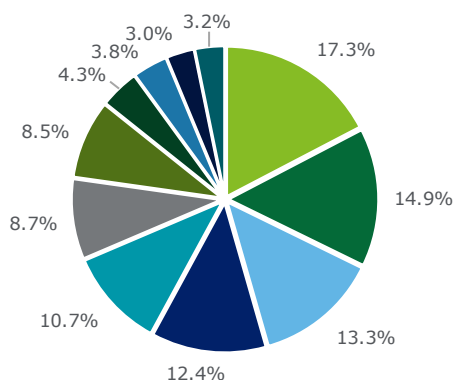
Please note that the LGIM MSCI Low Carbon Target Fund date of inception is 18 December 2018, hence the performance figures quoted above are for illustrative purposes only.

The LGIM MSCI Low Carbon Target Fund has successfully tracked its low carbon target benchmark over the quarter, year and 3 years to 31 December 2018.

16.2 Portfolio Sector Breakdown at 31 December 2018

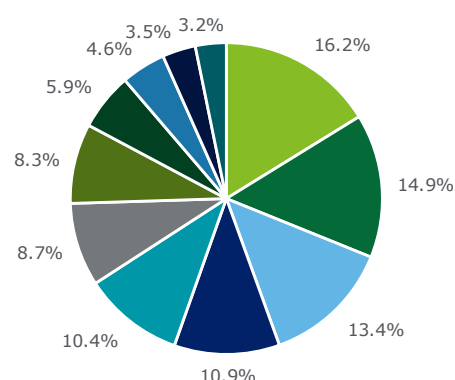
The below charts compare the relative weightings of the sectors in the LGIM MSCI World Low Carbon Target Fund and the MSCI World Equity Index.

LGIM MSCI World Low Carbon Fund



- Financials
- Information Technology
- Health Care
- Industrials
- Consumer Discretionary
- Consumer Staples
- Communication Services
- Energy
- Materials
- Utilities
- Real Estate

MSCI World Equity Index



The LGIM MSCI Low Carbon Target Fund has a larger allocation to financials and industrials than the MSCI World Equity Index, whilst the lower allocation to energy and materials represents the low carbon nature of the Fund.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	15.0%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
LGIM	Low Carbon Target	30.0%	MSCI World Low Carbon Target Index	18/12/18
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
Insight	Bonds Plus	10.0%	3 Month Sterling LIBOR +2% p.a.	30/09/15
Invesco	Private Equity	0.0%	n/a	30/09/09
Unigestion	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	5.0%	3 Month Sterling LIBOR +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	01/05/15
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling LIBOR +8% p.a.	31/08/2015
Aviva Investors	Infrastructure Income Fund	2.5%	FT British Government Index-Linked All Stocks Index +2.0%	23/05/2018
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Aberdeen Standard Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	100.0%		

Note, for the benchmark performance calculation, we assume a 10% allocation to Partners Group MAC and Oak Hill Advisors MAC, and 0% allocation to Partners Group Infrastructure. This will be re-weighted as the Infrastructure Fund is drawn down.

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager’s business management;
- The sources of ideas that go to form the portfolio (“alpha generation”);
- The process for including the ideas into the portfolio (“alpha harnessing”); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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Appendix 3: Cashflow Monitoring Position as at 31 December 2018

Pension Fund Current Account Cashflow Actuals and Forecast for period October 2018 to September 2019

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Forecast Annual Total	Forecast Monthly Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	£000s	£000s
Balance b/f	4,131	1,095	971	814	1,014	1,214	1,914	8,714	6,914	6,614	4,814	3,014	£000s	£000s
Contributions	2,160	2,501	851	2,000	2,000	2,000	10,600	2,000	2,000	2,000	2,000	2,000	32,112	2,676
Pensions	(2,713)	(2,759)	(3,143)	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)	(33,814)	(2,818)
Lump Sums	(782)	(7)	(1,151)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(7,340)	(612)
Net TVs in/(out)	(1,557)	361	(420)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(3,416)	(285)
Expenses	(145)	(219)	(306)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(2,469)	(206)
Net Cash Surplus/(Deficit)	(3,036)	(123)	(4,168)	(1,800)	(1,800)	(1,800)	6,800	(1,800)	(1,800)	(1,800)		(1,800)	(14,927)	(1,244)
Distributions	-	-	1,510	-	-	2,500	-	-	1,500	-	-	2,500	8,010	668
Net Cash Surplus/(Deficit) including investment income	(3,036)	(123)	(2,658)	(1,800)	(1,800)	700	6,800	(1,800)	(300)	(1,800)	(1,800)	700	(6,917)	(576)
Withdrawals from Custody Cash	-	-	2,500	2,000	2,000	-	-	-	-	-	-	-	6,500	542
Balance c/f	1,095	971	814	1,014	1,214	1,914	8,714	6,914	6,614	4,814	3,014	3,714	(417)	(35)

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Current Account Cashflow Actuals Compared to Forecast During the October to December 2018 Quarter

	Oct-18		Nov-18		Dec-18		Oct – Dec 18
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	2,000	2,160	2,000	2,501	2,000	851	(488)
Pensions	(2,800)	(2,713)	(2,800)	(2,759)	(2,800)	(3,143)	(214)
Lump Sums	(600)	(782)	(600)	(7)	(600)	(1,151)	(140)
Net TVs in/(out)	(200)	(1,557)	(200)	361	(200)	(420)	(1,016)
Expenses	(200)	(145)	(200)	(219)	(200)	(306)	(69)
Distributions	-	-	-	-	1,500	1,510	10
Distributions	-	-	-	-	-	2,500	2,500
Total	(1,800)	(3,036)	(1,800)	(123)	(300)	(158)	583

Notes on variances during quarter:

- Pension payments in December include HMRC payments for November and December. These are usually paid a month in arrears.
- Contributions in December had a shortfall of about £2m due to a change in income manager. This resulted in the main employer contributions being paid on the statutory deadline.
- The fund had to drawdown £2.5m in December to cover the shortfall in income and unexpected increase in expenditure.
- Contributions forecast for April includes £8.6m in Employer Deficit Contribution

Pension Fund Custody Invested Cashflow Actuals and Forecast for period October 2018 to September 2019

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Forecast Annual Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	£000s
Balance b/f	25,719	64,884	27,651	25,876	23,876	23,476	23,476	25,076	25,076	26,676	26,676	28,276	£000s
Sale of Assets	34,908												34,908
Purchase of Assets		(37,318)	(1,012)										(38,329)
Net Capital Cashflows	34,908	(37,318)	(1,012)	0	0	0	0	0	0	0	0	0	(3,421)
Distributions	4,227		1,751		1,600		1,600		1,600		1,600		12,378
Interest	11	14	24										49
Foreign Exchange Gains/Losses	18	71	(38)										51
Class Actions													0
Net Revenue Cashflows	4,256	85	1,737	0	1,600	0	1,600	0	1,600	0	1,600	0	12,478
Net Cash Surplus/(Deficit) excluding withdrawals	39,165	(37,233)	726	0	1,600	0	1,600	0	1,600	0	1,600	0	9,057
Withdrawals from Custody Cash			(2,500)	(2,000)	(2,000)								(6,500)
Balance c/f	64,884	27,651	25,876	23,876	23,476	23,476	25,076	25,076	26,676	26,676	28,276	28,276	2,557

Notes on Invested Cash Movements

- The Pension Sub-Committee agreed to sell the remaining Majedie holdings outside of the LCIV. The holdings were liquidated for £34.9m.
- In October, £4.2m was distributed back to the pension fund as follows:
 - £2.0m from the Invesco Private Equity Funds
 - £1.7m from Partners Group Multi Asset Credit Fund
 - £0.5m was an early investor rebate from the Partners Group Direct Infrastructure Fund
- In November, £37.3m was invested as follows:
 - £35.2m into the LGIM All World passive equities holdings
 - £1.1m capital call into the Partners Group Direct Infrastructure Fund
 - £1.0m capital call into the Aviva Infrastructure Fund
- The assets purchased in December were £1.0m capital call into the Partners Group Direct Infrastructure Fund. The Multi Asset Credit Fund also paid back £1.7m in distributions.

London Borough of Hammersmith & Fulham Pension Fund Risk Register - Investment Risk														
Risk Group	New	Risk Ref.	Previous	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed on
					Fund	Employers	Reputation	Total						
Funding		1	1	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	3	33	Review at each triennial valuation and challenge actuary as required	3	33	04/02/2019
Governance		2	2	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	3	36	TREAT - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups.	2	24	04/02/2019
Funding		3	3	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	TOLERATE - Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	20	04/02/2019
Funding		4	4	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	20	04/02/2019
Investment		5	5	Significant volatility and negative sentiment in global investment markets following disruptive politically inspired events in US.	5	4	1	10	3	30	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	20	04/02/2019
Funding		6	6	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%	5	3	2	10	3	30	TREAT- 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20	04/02/2019
Funding		7	15	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	04/02/2019
Investment		8	7	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m.	5	3	1	9	3	27	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	18	04/02/2019
Investment		9	8	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 29 March 2019 and the economic after effects.	4	4	1	9	3	27	TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements.	2	18	04/02/2019

Investment		10	9	Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	24	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	16	04/02/2019
Funding		11	10	Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	TOLERATE - 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	04/02/2019
Governance		12	11	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	TREAT - Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	2	16	04/02/2019
Operational		13	12	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	14	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	14	04/02/2019
Funding		14	13	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	TOLERATE - Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	04/02/2019
Funding		15	14	Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	04/02/2019
Governance		16	16	Changes to LGPS Regulations	3	2	1	6	2	12	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	04/02/2019
Governance		17	17	Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought	1	12	04/02/2019

Investment	*	18		Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	3	2	1	6	3	18	TREAT- 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum which engages with companies on a variety of ESG issues including climate change	2	12	04/02/2019
Governance	*	19		Failure by the audit committee to perform its governance, assurance and risk management duties	3	2	1	6	3	18	TREAT- 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled.	2	12	04/02/2019
Funding		20	18	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	2	11	2	22	TREAT - Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review.	1	11	04/02/2019
Funding		21	19	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	04/02/2019
Financial		22	20	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	04/02/2019
Operational		23	21	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin (Surrey County Council) manual records are locked daily in a secure safe. 4) WCC IT data security policy adhered to.	1	11	04/02/2019
Governance		24	22	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	TREAT - Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters.	1	11	04/02/2019
Funding		25	23	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	TREAT - Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11	04/02/2019
Governance		26	24	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	TREAT - At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	10	04/02/2019
Operational		27	25	Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	04/02/2019
Governance		28	26	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	04/02/2019

Investment		29	27	Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT - At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review.	1	10	04/02/2019
Operational		30	28	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10	04/02/2019
Investment		31	29	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	TREAT - 1) Proportion of total asset allocation made up of equities, bonds, property funds and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	04/02/2019
Operational		32	30	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	15	TREAT - 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. Stage AGM every year.	2	10	04/02/2019
Governance		33	31	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	TREAT - Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge.	1	10	04/02/2019
Governance		34	32	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	04/02/2019
Funding		35	33	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT - Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly.	1	9	04/02/2019
Governance		36	34	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT - External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9	04/02/2019
Operational		37	35	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	3	2	4	9	2	18	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	9	04/02/2019

Financial		38	36	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	3	4	2	9	2	18	TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	9	04/02/2019
Regulation		39	37	Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	5	2	2	9	2	18	TREAT - More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients.	1	9	04/02/2019
Governance		40	38	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	04/02/2019
Regulation		41	39	Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	4	2	2	8	2	16	TREAT - Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	8	04/02/2019
Funding		42	40	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT - Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	04/02/2019
Regulation		43	41	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	14	TREAT - Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	7	04/02/2019
Governance		44	42	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	2	12	TREAT- 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines.	1	6	04/02/2019

Appendix 5: Pension Fund Voting Summary: October to December 2018

The investment managers managing the Fund's assets on a segregated basis are able to report on how they have voted the Fund's specific holdings at AGMs and EGMs of companies the Fund is invested in.

LCIV Majedie voting information is as follows:

VOTING	
No. of companies	24
No. of meetings	26
No. of resolutions	233

LCIV Ruffer voting information is as follows:

VOTING	
No. of companies	6
No. of meetings	7
No. of resolutions	24


LGIM, who manage the global passive equity portfolio on behalf of the Fund, undertake extensive engagement with the companies they are invested in as well as voting. Below is a summary of the meetings they voted at during the April to June 2018 quarter.

VOTING	
No. of companies	339
No. of meetings	367
No. of resolutions	2925

Forward Plan for Pensions Sub-Committee – December 2018

Area of work	Mar 2019	Jun 2019	Sep 2019	Dec 2019
Governance	Quarterly Update Pack Pension Sub-Committee minutes IBC On-Boarding Update	Quarterly Update Pack Pension Sub-Committee minutes Business Plan Internal Audit Report Draft Annual Report	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring Fixed Income Strategy Review London CIV Update	Fund Manager monitoring Annual report to Scheme Advisory Board re pooling arrangements	Fund Manager monitoring Inflation Protection Strategy Review	Fund Manager monitoring
Funding	Funding Update (quarterly update)	Funding Update (quarterly update)	Funding Update (quarterly update) Actuarial Valuation Review	Funding Update (quarterly update)

Agenda Item 8

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS BOARD</p> <p>5 June 2019</p>	
FIXED INCOME STRATEGY	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification - For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions	
Report Author: Matt Hopson, Strategic Investment Manager	Contact Details: Tel: 0207 641 4126 E-mail: mhopson@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 This paper updates Pensions Board on:

- a. An overview of the current fixed income portfolio and its performance.
- b. New fixed income investment categories that the Fund may wish to consider in fixed income.

2. RECOMMENDATIONS

2.1 The Board is requested to note the currently approved composition of the fixed income portfolio.

3. CURRENT FIXED INCOME PORTFOLIO

3.1 As at 31 December 2018, the Pension Fund had a diverse fixed income portfolio containing two managers with dynamic asset allocation strategies, one manager specialising in loans and one specialising in private markets.

3.2 The Fund also held two infrastructure investments with different fund managers that complement this portfolio. The portfolio is discussed in detail in Appendix 1. The total allocations of the Fund as at 31 December 2018 are listed in the table below:

3.3 Asset Allocation

The table below shows the assets held by each manager as at 31 December 2018 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 Sept 2018 (£m)	31 Dec 2018 (£m)	30 Sept 2018 (%)	31 Dec 2018 (%)	
Majedie	UK Equity (Active)	168.9	117.7	16.0	11.9	15.0
LGIM	Global Equity (passive)	342.3	0.0	32.4	0.0	0.0
	Low Carbon Equity (passive)	0.0	339.9	0.0	34.4	30.0
	Total Equity	511.2	457.6	48.4	46.3	45.0
Ruffer	Absolute Return	130.9	123.8	12.4	12.5	10.0
Insight	Bonds Plus	87.0	86.3	8.2	8.7	10.0
	Total Dynamic Asset Allocation	217.9	210.1	20.6	21.3	20.0
Invesco	Private Equity	4.4	2.9	0.4	0.3	0.0
Unicapital	Private Equity	1.6	1.7	0.2	0.2	0.0
	Total Private Equity	6.0	4.6	0.6	0.5	0.0
Partners Group	Multi Asset Credit	38.3	28.2	3.6	2.9	5.0
Oak Hill Advisors	Diversified Credit Strategy	73.2	70.4	6.9	7.1	7.5
Partners Group	Direct Infrastructure	13.5	16.6	1.3	1.7	5.0
Aviva	Infrastructure Income	28.2	30.2	2.7	3.1	2.5
	Secure Income	153.2	145.4	14.5	14.7	20.0
M&G	Inflation Opportunities	102.3	103.0	9.7	10.4	10.0
Aberdeen Standard Investments	Long Lease Property	54.0	54.9	5.1	5.6	5.0
	Total Inflation Protection	156.3	157.9	14.8	16.0	15.0
LGIM	Liquidity Fund	10.9	10.9	1.0	1.1	0.0
	Total	1,055.6	986.6	100.0	100.0	100.0

Source: Northern Trust (Custodian) and have not been independently verified
 Figures may not sum to total due to rounding

4 PRIVATE CREDIT ALLOCATION

- 4.1 The Fund has a 5% allocation to private credit with Partners Group. The Fund invests in a range of different private markets, including real estate debt and infrastructure debt. This Fund is now in run off and as such is paying back its initial investment, with the value now standing at £25.3m as at 31 March 2019.
- 4.2 At the meeting held on 13 February 2019, the Pensions Sub-Committee agreed to defer its decision with regards to the future of its private credit allocation to later in the year. The options under consideration are:
- a. To reinvest with the next Partners Group Fund.
 - b. To conduct a manager search for a private market manager.
 - c. To transfer the private credit allocation to an alternative asset class as the allocation continues to distribute back to the Fund.
- 4.2 Private credit has served the Pension Fund well so far and provides diversification from other fixed income asset classes, with a higher yield than a conventional bond fund.

5 INSIGHT BONDS PLUS FUND

- 5.1 The Bonds Plus Fund invests in a range of fixed income securities and seeks to provide corporate bond like returns, but delivering an absolute performance in all market types, with a performance target of three-month LIBOR plus 2%.
- 5.2 The fund had underperformed over three years, achieving annualised negative absolute returns of -0.6% over the period, 3.1% below the target benchmark. This was mainly due to some macroeconomic calls that had not worked out well.
- 5.3 At the February meeting, the Sub-Committee decided to withdraw its entire holdings from the Insight Bonds Plus Fund and pursue a buy and maintain strategy instead. This allocation was invested in May 2019 with the LCIV Global Bonds strategy which is managed by PIMCO.
- 5.4 The Sub-Committee will continue to review its overall fixed income allocation in line with current market conditions.

6 CONSULTATION

- 6.1 Not Applicable

7 EQUALITY IMPLICATIONS

- 7.1 Not applicable

8 LEGAL IMPLICATIONS

- 8.1 None

9 FINANCE AND RESOURCES IMPLICATIONS

9.1 Finance risks are outlined within the report.

10 IMPLICATIONS FOR BUSINESS

10.1 Not applicable

11 RISK MANAGEMENT

11.1 Risks are outlined within the report.

12 PROCUREMENT IMPLICATIONS

12.1 None

13 IT STRATEGY IMPLICATIONS

13.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

(EXEMPT) Appendix 1: Fixed Income Strategy

Agenda Item 9

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS BOARD</p> <p>5 June 2019</p>	
Member Knowledge and Skills Training	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions	
Report Author: Philip Triggs, Tri-Borough Director of Treasury and Pensions	Contact Details: Tel: 0207 641 4136 E-mail: ptriggs@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report contains the Knowledge and Skills Self-Assessment training form to be completed by committee members.

2. RECOMMENDATIONS

- 2.1 The Pensions Board is recommended to note and comment on the updated Knowledge and Skills Self-Assessment training form.

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

APPENDICES:

Appendix 1: Knowledge and Skills Self-Assessment Form

London Borough of Hammersmith & Fulham

Knowledge and Skills Self-Assessment

Name: _____

Role: Pensions Board Member

1. Pensions legislative and governance context

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the law relating to pensions in the UK	
Overall understanding of the Local Government Pension Scheme regulations in relation to benefits, administration and investments	
Knowledge of the discretion policies in place for the Fund and other policies regarding administration	
Understanding of the role and powers of the Pensions Regulator, and the Scheme Advisory Board	
Understanding of the role of the Investment Committee, pensions board, director of finance and monitoring officer	
Awareness of Environmental, Social and Governance (ESG) investment issues	
Awareness of the UK Code of Corporate Governance and the Stewardship code	

2. Pensions accounting and auditing standards

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the Accounts and Audit regulations and legislative requirements relating to the role of the committee in considering signing off the accounts and annual report	
Awareness of the role of both internal and external audit in the governance and assurance process	

3. Financial services procurement and relationship management

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

General understanding of the main public procurement requirements of UK and EU legislation and how they apply to procuring services for local authority Pension Funds	
Awareness of supplier risk management and the nature and scope of risks to be considered when selecting third parties	

4. Investment performance and risk management

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks	
Awareness of the Myners principles of performance management and the approach adopted by the committee	
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime	

5. Financial markets and products knowledge

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the risk and return characteristics of the main asset classes and understanding of the role of these asset classes in long term pension fund investing	
Understanding of the primary importance of the investment strategy decision	
The role of Fund Managers including the appointment process and fee structures	
A broad understanding of the workings of the financial markets and of investment vehicles available to the pension fund and the nature of the associated risks	
An awareness of the limits placed by regulation on the investment activities of local government pension funds.	

6. Actuarial methods, standards and practices

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Knowledge of the valuation process, including developing the funding strategy in conjunction with the Fund Actuary and inter-valuation monitoring	
Awareness of the importance of monitoring early and ill health retirement strain costs	
A broad understanding of the implications of including new employers into the Fund and of the cessation of existing employers	
A general awareness of the relevant considerations in relation to outsourcings and bulk transfers	

Signed: _____


Date: _____

Once completed, please return to:

Phil Triggs
Tri-Borough Director of Treasury & Pensions

ptriggs@westminster.gov.uk

Agenda Item 10

London Borough of Hammersmith & Fulham PENSIONS BOARD 5 June 2019	 hammersmith & fulham
ASSET POOLING CONSULTATION	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification - For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions	
Report Author: Mat Dawson, Strategic Finance Manager	Contact Details: Tel: 0207 641 1075 E-mail: mdawson@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This paper details the LBHF response to the proposed new statutory guidance on LGPS asset pooling from the Ministry of Housing, Communities and Local Government (MHCLG).

2. RECOMMENDATIONS

- 2.1 The Board is requested to:
- a. Note the response to the consultation at Appendix 1 and the report taken to the Pension Fund Committee at Appendix 2.
 - b. Note the original draft guidance from MHCLG at Appendix 3.

3 ASSET POOLING

- 3.1 At the Local Pension Board meeting of 9 February 2019, the Board considered new statutory guidance on LGPS asset pooling from MHCLG. This guidance set out the requirements on administering authorities that builds on previous ministerial communications and guidance on investment strategies.

1.2 This guidance was presented at the Pension Fund Committee meeting of 13 February 2019. Each section of the guidance was included with implications for the administering authority for Committee members to consider.

1.3 Following the approval of the Pension Fund Committee, the consultation response was then submitted to MHCLG.

4 ORIGINAL CONSULTATION

4.1 The original draft guidance from MHCLG can be found at Appendix 3 for reference.

5 NEW CONSULTATION

5.1 In the Government's initial consultation, there was some confusion as to what form the draft guidance took. There was confusion as to its statutory status, particularly in its approach to the need for an FCA-regulated company and central direction as to how administering authorities are to engage in pooling.

5.2 Government has now confirmed that the reissue of the consultation process will confirm its statutory nature in that it will link to the 2016 LGPS Investment Regulations which require the publication of an Investment Strategy Statement which, in turn, requires an Administering Authority to set out its approach to pooling. By this confirmed link, the guidance takes on a statutory footing.

5.3 The Minister has now clarified that the January 2019 consultation had only "informal" status and that there would be a further formal consultation which would be issued in due course. MHGLC's timescale indicates reissuing in the summer, but in practice this could well stretch until at least October 2019.

6 CONSULTATION

6.1 Not applicable.

7 EQUALITY IMPLICATIONS

7.1 Not applicable

8 LEGAL IMPLICATIONS

8.1 None

9 FINANCE AND RESOURCES IMPLICATIONS

9.1 Finance risks are outlined within the report.

10 IMPLICATIONS FOR BUSINESS

10.1 Not applicable

11 RISK MANAGEMENT

11.1 Risks are outlined within the report.

12 PROCUREMENT IMPLICATIONS

13.1 None

13 IT STRATEGY IMPLICATIONS

13.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1: Pooling Response: London Borough of Hammersmith and Fulham

Appendix 2: Committee Report 13 February 2019

Appendix 3: MHCLG: Draft Guidance on Pooling

Local Government Pension Scheme

Statutory Guidance on Asset Pooling

Consultation Response

The Council welcomes the opportunity to respond to the draft statutory guidance on asset pooling.

Mandatory Approach

Looking at England and Wales in total, the guidance makes pooling mandatory even when there is a potential loss to the administering authority of following the guidance. Several of the larger metropolitan councils have pensions funds that are run in-house at very low cost and with above benchmark returns.

There will be a number of occasions where the cost of the pool's offering may be higher than is currently being paid. In this instance, there should not be a requirement to pool assets where the cost to the local authority has not decreased, or the fee structure is not consistent with the current, agreed, low cost arrangements.

Accountability

The guidance envisages that the Administering Authorities will delegate their investment management processes to the pool. However, the current incumbent investment managers were appointed after extensive due diligence on people, investment processes, and track records. In this new regime, how can Funds be held accountable for the investment performance of their Funds?

Administering authorities and their pension fund committees that are delegated with responsibility for manager selection will have a democratic deficit surrounding the selection process: they will continue to be held accountable to for the performance of the Pension Fund by the decisions that they make, and will still hold fiduciary responsibility, but under the new pooling proposals will not have the decision making powers.

Fee Savings

The guidance document assumes that pooling is a solution that works and that the Government's criteria on structure and scale are proven. Pooling has undoubtedly resulted in numerous well reported instances of lower fees, but a combination of frameworks, competitive procurement and collaborative LGPS fee scales had already achieved notable fee savings, outside of pooling.

With pooling, there are significant overheads arising from the implementation and operation of the pools. Moreover, the full impact of LGPS pensions provision for pool employees is not yet costed in some pools. The cost/benefit equation is not yet proven in the long term.

With regard to net of fees outperformance, fund objectives on investment will come about from sustained benchmark outperformance, not singly from cost reduction. The long-term cost/benefit equation will not be available for at least five years, so it far too early to tell yet as to whether pools will produce consistent outperformance over benchmarks that some well-run administering authorities, by themselves, have generated over many years.

Large Client Base

With regard to the London Collective Investment Vehicle (LCIV), given London's wide range of investment styles, investment strategies, funding levels and cash flow positions, the challenge of dealing with a wide spectrum of requirement will result in LCIV requiring a large product base than the other pools.

Thus, with the LCIV required to please many stakeholders, the scope for economies will be much reduced. This makes the link to a mandatory approach to pooling far more tenuous in terms of an optimal outcome reference superior investment returns and low cost.

Active/Passive

On Funds considering moving from active to passive management where active management has not generated better net performance over a reasonable time period, this is regarded as over simplistic and fails to take account of the complicated funding challenges which LGPS administering authorities have to meet, particularly those that have past deficits to eliminate, or those who have negative cash flow and require investment income to meet pension payments. Passive management is not a panacea for these particular challenges.

We do not support the pool being involved in the decision of active or passive management. Such a choice arises from a strategic decision and sits 100% with the Administering Authority.

Infrastructure

We agree that infrastructure has the potential to provide secure long-term CPI protected returns for the Fund. However, reference should be made to the need to fully understand the risk/return equation and implications for illiquidity, as well as the existence of other asset classes that can provide the same types of protected returns.

Investing in Other Pools

Mention is made to the potential for investing in other pools. There is a lack of clarity as to which type of investment this may apply to, the criteria for making such a decision, and how this would work in practice from both the Fund perspective and from the Pools' perspective (i.e. the Fund's current Pool and any alternative Pool being considered).


Threshold for Investing Outside the Pool

The current guidance indicates that passive life funds sit outside the pool and that from 2020, pool members should make new investments outside the pool only in very limited circumstances. We question whether life funds should be deemed as not pooled, as they are effectively pooled with other investors of the investment manager and have LGPS collaborative fee scales.

The threshold of 5% for making investments outside the pool is far too low and should be in the region of 20%.

Our Preference

Given the concerns that we have expressed above, our preference would be that the existing guidance and regulations should encourage rather than give compulsion to pooling. Prior to compulsion, the Council would prefer to see hard, long-term evidence of better investment outcomes arising from pooling.

<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">PENSIONS SUB-COMMITTEE</p> <p style="text-align: center;">13 February 2019</p>	
<p>MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG) STATUTORY GUIDANCE ON ASSET POOLING IN THE LOCAL GOVERNMENT PENSION SCHEME CONSULTATION</p>	
<p>Report of the Strategic Director, Finance and Governance</p>	
<p>Open Report</p>	
<p>Classification – For Information</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Philip Triggs, Tri-Borough Director of Pensions & Treasury</p>	
<p>Report Author: Philip Triggs, Tri-Borough Director of Pensions & Treasury</p>	<p>Contact Details: Tel: 0207 641 4136 E-mail: pdriggs@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1 The Ministry for Housing, Communities and Local Government (MHCLG) has been preparing new statutory guidance on LGPS asset pooling. This guidance will set out the requirements on administering authorities, replacing previous guidance, and builds on previous ministerial communications and guidance on asset pooling and investment strategies.
- 1.2 MHCLG is now inviting views on the draft guidance and the consultation process will close on 28 March 2019.

2. RECOMMENDATIONS

- 2.1 The Pensions Sub-Committee is recommended to note the draft guidance on pooling and express any desired feedback for the consultation process.

3 MHCLG DRAFT GUIDANCE

- 3.1 A summary of the key points are as follows:

- 3.2 Pool members must appoint a pooling company to implement their investment strategies, including the selection, appointment and dismissal of investment managers.
- 3.3 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account.
- 3.4 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. However, some existing investments may be retained by pool members on a temporary basis if the cost of moving the existing investment to a pooling vehicle exceeds the benefits of doing so.
- 3.5 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and implement revised strategies post 1 April 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.
- 3.6 There is no target set for infrastructure investment for pool members or pools, but pool members are expected to declare an ambition on investment in this investment category.
- 3.7 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports and accounts, following the CIPFA guidance 'Preparing the Annual Report', with effect from the 2018-19 annual report.

4 CONSULTATION

- 4.1 Not Applicable

5 LEGAL IMPLICATIONS

- 5.1 None

6 FINANCE AND RESOURCES IMPLICATIONS

- 6.1 Finance risks are outlined within the report.

7 IMPLICATIONS FOR BUSINESS

- 7.1 Not applicable

8 RISK MANAGEMENT

- 8.1 Risks are outlined within the report.

9 PROCUREMENT IMPLICATIONS

9.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1: MHCLG draft guidance on pooling

Local Government Pension Scheme

Statutory guidance on asset pooling

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- 8 Reporting**

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance*, issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool

'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance

'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)

'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members

'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)

'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company

'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle

'Retained asset' an existing investment retained by a pool member during the transition period

'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy*.

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
 - asset transition during the reporting year
 - transition plans for local assets
 - pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
 - ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report*.

For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.


8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

Agenda Item 11

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS BOARD</p> <p>5 June 2019</p>	
LGPS COST CAP, MCCLOUD CASE (SUPREME COURT) AND ACTUARIAL VALUATION CONSULTATION	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification - For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions	
Report Author: Mat Dawson, Strategic Finance Manager	Contact Details: Tel: 0207 641 1075 E-mail: mdawson@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 This paper provides the Pensions Board Members a summary of:

- a. Background information on the LGPS cost cap in public service pensions and recent developments.
- b. Proposed changes to the actuarial valuation process.

2. RECOMMENDATIONS

2.1 The Board is requested to note:

- a. The report and potential implications for the LBHF pension fund.
- b. The consultation on the actuarial valuation process at Appendix 1.

3 THE LGPS COST CAP

- 3.1 In 2010, following the Lord Hutton report of public service pensions, one of the key recommendations was that the retention of public service defined benefit schemes should have a “cost cap” mechanism to control the cost of future pension provision.
- 3.2 HM Treasury decided that it was mainly the uncertainty around how long a pension is expected to be paid (pensioner longevity) that should be included in the mechanism. If future pensions in payment were longer than initially anticipated then the additional costs should be reflected in a reduction in pension payment or, alternatively, an increase in member contributions in order to reflect that the members’ pensions will be paid for a longer period.
- 3.3 Whilst the original concept from the Hutton report was a cost “cap”, it was also argued that there should be a “floor”. This would apply where the duration of pension paid to retired members is shorter than expected. In this event, theoretically, it would mean an increase in pensions benefit or a reduced employee contribution rate.
- 3.4 As new cost cap/floor mechanisms were constructed to accommodate the above points, there was an unexpected slowdown in UK longevity improvements. The result of this was that the cost floor became a far more significant issue than was initially anticipated at the time of the Hutton report as this slowdown in longevity would mean pensions would not be in payment for as long.
- 3.5 Whilst the cost cap/floor mechanism would normally be underway at this time, the Government Actuaries Department has suspended the process, pending the outcome of the McCloud Supreme Court case, currently underway.

4 MCCLOUD CASE

- 4.1 In connection with the cost cap/floor process above, revised actuarial assumptions were implemented to reflect the slowdown in longevity and had nearly reached completion when the Appeal Court judgment of the McCloud case was reached. This was a case where the Appeal Court examined benefit protections offered to judges in the reform of the Judiciary Pension Scheme, which were intended to protect them from changes being made to future pension benefits.
- 4.2 The reforms to the judges’ scheme and protection offered to older judges were found to be age discriminatory, on the basis that younger members of the judges’ scheme were offered no such protection. In December 2018, the Appeal Court found against the Government. The Government has since appealed the decision to the Supreme Court.

- 4.3 The implications of this case are that the transitional changes to public service schemes, when moving from final salary to career average revalued earnings (CARE) are now deemed, or likely to be deemed, to be unlawful, mainly on age discrimination grounds. On the basis that the appeal to the Supreme Court will not be resolved quickly, the cost cap/floor management process has now been paused with the understanding that any implications to LGPS pensions following the final ruling will be backdated to 1 April 2019.
- 4.4 As it is highly unlikely there will be any resolution before the 2019 actuarial valuation is complete, there are several possible ways of treating the outcome of the McCloud appeal and the cost management process. The LGPS Scheme Advisory Board is to issue guidance to funds and actuaries on the preferred approach.

5 TRIENNIAL ACTUARIAL VALUATION

- 5.1 With regard to the current triennial valuation, the Government has issued a consultation paper which suggests moving to quadrennial valuations (every four years instead of the current three) in line with the other public service pension schemes. Post 2019, the next valuation is widely expected to be 2024, both for LGPS Funds in England and Wales, and Scotland.
- 5.2 Whilst this would mean that LGPS scheme would fall into the same four-year cycle as the other public sector schemes and be aligned, a gap of five years between valuations would not be without complications in setting employer contributions over such a long period. It is likely that there would be an interim valuation in 2022 to solve the problem of the five-year gap.

6 EQUALITY IMPLICATIONS

- 6.1 Not applicable

7 LEGAL IMPLICATIONS

- 7.1 None

8 FINANCE AND RESOURCES IMPLICATIONS

- 8.1 Finance risks are outlined within the report.

9 IMPLICATIONS FOR BUSINESS

- 9.1 Not applicable

10 RISK MANAGEMENT

- 10.1 Risks are outlined within the report.

11 PROCUREMENT IMPLICATIONS

11.1 None

12 IT STRATEGY IMPLICATIONS

12.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1: Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk



Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation



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This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

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Scope of the consultation

<p>Topic of this consultation:</p>	<p>This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales.</p> <p>It covers the following areas:</p> <ol style="list-style-type: none"> 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership
<p>Scope of this consultation:</p>	<p>MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).</p>
<p>Geographical scope:</p>	<p>These proposals relate to the Local Government Pension Scheme in England and Wales only.</p>
<p>Impact Assessment:</p>	<p>The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.</p> <p>Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme.</p> <p>Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.</p>

When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact: LGpensions@communities.gov.uk
How to respond:	<p>Please respond by email to:</p> <p>LGpensions@communities.gov.uk</p> <p>Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF</p> <p>When you reply, it would be very useful if you could make it clear which questions you are responding to.</p> <p>Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:</p> <ul style="list-style-type: none"> - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle¹, and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.
- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

¹ <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations>

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended² to allow the payment of ‘exit credits’ to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016³. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS’s funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019.**

² S.I. 2018/493

³ <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

Changes to the Local Government Pension Scheme (LGPS) valuation cycle

1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes⁴.

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

⁴ <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations>

1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

- a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.
- b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Dealing with changes in circumstances between valuations

2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations⁵. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

⁵ <https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016>

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement⁶ requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

⁶ Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Flexibility on exit payments

3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis⁷ on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers⁸ in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

⁷ Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

⁸ Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)⁹:

“(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—

(a) the contribution at the primary rate should be adjusted; or

(b) any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.”

⁹ In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?

3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector¹⁰ defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become “deferred employers”. A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a ‘relevant event’ (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

¹⁰ These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: <https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017>

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;
2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;
3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Exit credits under the LGPS Regulations 2013

4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes¹¹ to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016¹², as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

¹¹ S.I. 2018/493

¹² <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS¹³. Use of the deemed employer approach,

¹³ <https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer’s exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Employers required to offer LGPS membership

5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.
- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.
- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation '[Insolvency regime for further education and sixth form colleges](#)', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a “funded scheme”. This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

Public sector equality duty

6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

3. With whom we will be sharing your personal data

We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for two years from the closure of the consultation.


5. Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

- 6. Your personal data will not be sent overseas**
- 7. Your personal data will not be used for any automated decision making.**
- 8. Your personal data will be stored in a secure government IT system.**

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS BOARD</p> <p>5 June 2019</p>	
EXIT CAP CONSULTATION	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification - For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions	
Report Author: Mat Dawson, Strategic Finance Manager	Contact Details: Tel: 0207 641 1075 E-mail: mdawson@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This paper provides the Pensions Board Members a summary of the background of the proposed cap on exit payments in the public sector.

2. RECOMMENDATIONS

- 2.1 The Board is requested to:
- a. Note the report and make appropriate comments and feedback with a view to making a suitable response.

3. EXIT PAYMENTS

- 3.1 In 2015, the Government first announced plans to introduce a cap on exit payments in the public sector. The cap includes any pension strain cost. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

- 3.2 The exit cap will apply to the whole of the public sector. At the first stage, the Regulations will apply to exit payments made by all local authorities, the UK Civil Service, the NHS in England and Wales, academy schools, Police Forces (including civilian staff) and Fire and Rescue Authorities. Exceptions are housing management companies, further and higher education corporations and sixth form college corporations who are not covered by the Regulations.
- 3.3 On 10 April 2019, HM Treasury opened a consultation on the draft Regulations, directions and guidance to implement the exit cap. The consultation will run for 12 weeks and close on 3 July 2019.
- 3.4 The background of the proposed cap is the prevention of senior staff retiring early with significant six-figure pension strain and other statutory redundancy pay-offs.
- 3.5 Payments related to death in service, ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal are not exit payments for the purposes of these Regulations.
- 3.6 If the cap is imposed, with an individual taking an early, enforced retirement as a result of the local authority's implementation of business efficiency changes (applies to officers aged over 55), whereas under the current regime that officer's pension would be made up to retirement age with no pensions reduction, under the new rules, the total of the statutory redundancy payment and the pension strain would not be allowed to exceed £95,000. As a result, the officer would suffer an actuarial reduction in their pension.
- 3.7 The exit cap covers redundancy payments (including statutory redundancy payments), severance payments, pension strain costs, and all other payments made as a result of termination of employment. The statutory redundancy element of an exit payment cannot be reduced. If the cap is exceeded, other elements that make up the exit payment must be reduced, in order that an exit payment at or below £95,000 is achieved.
- 3.8 The proposed Regulations do not apply to the lump sum element of a retiree's pension.

4 APPLYING THE CAP IN THE LGPS

- 4.1 The impact of the Regulations on a LGPS member if the exit cap was to be exceeded and the exit payment includes pension strain cost is not 100% clear in the consultation document. It is understood that the policy intent is for the member's pension benefits to be actuarially reduced to the extent that the total exit payment cap of £95,000 is not breached, with the member having the option of paying extra to buy out some or all of the reduction, or the member taking a pension cut.
- 4.2 Amendments to current Regulations would be required to facilitate this change, plus guidance from the Government Actuary Department on how to calculate the pension reduction.

- 4.3 A person who receives any exit payment must inform any other public body that employs them about that payment. Employers are required to record and publish information about capped exit payments.
- 4.4 The consultation invites responses from employing bodies within scope and out of scope of the Regulations, employees, bodies representing those employers or employees, academics with expertise in this area, public and private sector pay, pension, remuneration and HR professionals, and anyone else who might be impacted by this consultation
- 4.5 The LBHF Fund will be responding formally to the consultation ahead of the deadline on 3 July 2019. This will be a collaboration between feedback from this meeting, fund officers and the Chairman of the Pensions Sub-Committee.
- 4.6 The following questions have been asked:
1. Does draft schedule 1 to the regulations capture the bodies intended? If not, please provide reasons.
 2. Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.
 3. Do you agree with the exemptions outlined? If not, please provide evidence.
 4. Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.
 5. Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistle-blowers?
 6. Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.
 7. Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?
 8. Are you able to provide information and data in relation to the impacts set out above?

5 CONSULTATION

- 5.1 Not applicable.

6 EQUALITY IMPLICATIONS

- 6.1 Not applicable

7 LEGAL IMPLICATIONS

- 7.1 None

8 FINANCE AND RESOURCES IMPLICATIONS

- 8.1 Finance risks are outlined within the report.

9 IMPLICATIONS FOR BUSINESS

9.1 Not applicable

10 RISK MANAGEMENT

10.1 Risks are outlined within the report.

11 PROCUREMENT IMPLICATIONS

11.1 None

12 IT STRATEGY IMPLICATIONS

12.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

Appendix 1: Restricting Exit Payments in the Public Sector: Consultation on Implementation of Regulations

1. Home (<https://www.gov.uk/>)
 2. Restricting exit payments in the public sector
(<https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector>)
1. HM Treasury (<https://www.gov.uk/government/organisations/hm-treasury>)

Open consultation

Restricting exit payments in the public sector: consultation on implementation of regulations

Published 10 April 2019

Contents

1. Introduction
2. Proposed scope of draft regulations
3. Guidance and directions
4. Devolution summary and equalities impacts
5. Summary of questions



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This publication is available at <https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector/restricting-exit-payments-in-the-public-sector-consultation-on-implementation-of-regulations>

0.1 Executive summary

Exit payments to employees leaving the public sector workforce in 2016-2017 cost the taxpayer £1.2 billion¹, with payments at and above £100,000 amounting to £0.2 billion. Exit payments can be important to employers' ability to reform and react to new circumstances, whilst providing support for employees as they find new employment or as a bridge until retirement age. However, public sector employers have a responsibility to demonstrate that they are using public money efficiently and responsibly, and to ensure that pay and terms are always proportionate, justifiable and fair to the taxpayers who fund them.

The government does not believe that the majority of six figure exit payments, which are far in excess of those available to most workers in the public sector or wider economy, are proportionate or provide value for money for taxpayers.

The government therefore introduced powers to cap exit payments in the public sector at £95,000 in the Small Business, Enterprise and Employment Act 2015. This consultation sets out the proposed method of implementing that cap, including which bodies should be in scope.

These regulations will help public sector employers to ensure exit payments represent value for money to the taxpayer who funds them.

1. Introduction

1.1 Policy background

Exit payments associated with loss of employment, including redundancy, are important to employers' ability to reform, and an important source of support for employees as they find new employment, or as a bridge until retirement age. However, it is also important that exit payments are proportionate and fair to the taxpayer and the government is concerned about the number of exit payments made to public sector workers that exceed or come close to £100,000.

Such payments can exceed three times the average annual earnings in the public sector², and are far higher than the value of exit payments made to the majority of public sector workers³. The government does not believe that such payments often provide value for money or are fair to the taxpayers who fund them.

The government legislated for a cap of £95,000 on exit payments (the cap) in the public sector in the Small Business Enterprise and Employment Act 2015 (the 2015 act) as amended by the Enterprise Act 2016 (the 2016 act). The 2015 act sets out the duty to implement the cap through secondary legislation.

This consultation sets out the proposed draft regulations, schedule to the regulations, accompanying guidance and directions. The government welcomes comments on the draft regulations.

The draft schedule 1 sets out in detail the proposed scope of the regulations for this first stage of implementation. The government will expand the bodies in scope to the whole of the public sector in due course, with exemptions for certain bodies. Exemptions will be considered on a case by case basis, taking into account the nature of and functions undertaken by the employer.

1.2 Policy intention

Sections 153A to 153C of the 2015 act enable HM Treasury to make regulations restricting public sector exit payments to a maximum of £95,000. The draft regulations define the types of payments intended to be subject to the cap, how the proposed cap is intended to operate, and the scope of the regulations. The bodies in scope of the draft regulations are set out in schedule 1 of the draft regulations. It is the government's intention to extend the scope of the regulations to the whole public sector in due course.

1.3 Aim and scope of the consultation

The government will consider the consultation responses and decide on how best to achieve its aims in relation to the questions and proposals set out in this document. Responses are particularly welcomed from:

- employing bodies within the scope of the draft regulations as well as employing bodies within the wider public sector but not included in schedule 1 at present
- bodies representing public sector employers
- employees and their representative bodies
- members of the academic community with expertise in this area
- pay, pension, remuneration and HR professionals in both the private and public sectors
- anyone else who may be impacted by this consultation

1.4 How to respond

This consultation will run for twelve weeks and will close on 3 July. Responses can be submitted online (<https://www.smartsurvey.co.uk/s/QABLW/>) or sent by email to: ExitPaymentCap@hmtreasury.gov.uk with the subject heading 'Consultation on Exit Payment Cap'.

Alternatively please send responses by post to:

Workforce, Pay & Pensions Team,
HM Treasury,
1 Horse Guards Road,

London
SW1A 2HQ

When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

1.5 Consultation principles

This consultation is being run in accordance with the government's consultation principles (<https://www.gov.uk/government/publications/consultation-principles-guidance>).

1.6 Privacy notice

This notice sets out how HM Treasury will use your personal data for the purposes of the 'public sector exit payment' and explains how your rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

Your data (data subject categories)

The personal information relates to you as either a member of the public, parliamentarians, and representatives of organisations or companies.

The data we collect (data categories)

Information may include your name, address, email address, job title, and employer of the correspondent, as well as your opinions. It is possible that you will volunteer additional identifying information about themselves or third parties.

Legal basis of processing

The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury. For the purpose of this consultation the task is consulting on departmental policies or proposals or obtaining opinion data in order to develop good effective government policies.

Special categories data

Any of the categories of special category data may be processed if such data is volunteered by the respondent.

Legal basis for processing special category data

Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: the processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.

This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Purpose

The personal information is processed for the purpose of obtaining the opinions of members of the public and representatives of organisations and companies, about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

Who we share your responses with

Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury. Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place.

Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates. Examples of these public bodies (<https://www.gov.uk/government/organisations>).

As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor, NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we will hold your data (Retention)

Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.

Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

Your rights

- you have the right to request information about how your personal data are processed and to request a copy of that personal data
- you have the right to request that any inaccuracies in your personal data are rectified without delay
- you have the right to request that your personal data are erased if there is no longer a justification for them to be processed
- you have the right, in certain circumstances (for example, where accuracy is contested), to request that the processing of your personal data is restricted
- you have the right to object to the processing of your personal data where it is processed for direct marketing purposes
- you have the right to data portability, which allows your data to be copied or transferred from one IT environment to another

How to submit a Data Subject Access Request (DSAR)

To request access to personal data that HM Treasury holds about you, contact:

HM Treasury Data Protection Unit
G11 Orange
1 Horse Guards Road
London
SW1A 2HQ

dsar@hmtreasury.gov.uk

Complaints

If you have any concerns about the use of your personal data, please contact us via this mailbox: privacy@hmtreasury.gov.uk.

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, the UK's independent regulator for data protection. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane

Wilmslow
Cheshire
SK9 5AF

0303 123 1113

casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

The data controller for any personal data collected as part of this consultation is HM Treasury, the contact details for which are:

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

020 7270 5000

public.enquiries@hmtreasury.gov.uk

The contact details for HM Treasury's Data Protection Officer (DPO) are:

The Data Protection Officer
Corporate Governance and Risk Assurance Team
Area 2/15
1 Horse Guards Road
London
SW1A 2HQ

privacy@hmtreasury.gov.uk

2. Proposed scope of draft regulations

Employers in the whole of the public sector have a responsibility to demonstrate that they are using public money efficiently and responsibly, and to ensure that pay and terms are always proportionate, justifiable and fair to taxpayers.

In order to determine the scope of the cap, HM Treasury will be guided by the Office for National Statistics (for National Account purposes) classification of bodies within the central and local government, and non-financial public corporation sectors. There will be a limited number of

exemptions.

The government is proposing a staged process of implementation across the public sector. The first stage will capture most public sector employees, before extending the cap to the rest of the public sector in the second stage. Prioritising in this way will ensure most exit payments in the public sector are limited to £95,000 without further delay, while work continues on expanding the scope of the regulations.

2.1 Bodies in scope of the current draft regulations

The draft regulations apply to payments made by public sector authorities to employees and by public sector offices to office holders. However, they do not apply to the following payments:

A. Payments made by a relevant Scottish authority, as defined in s 153B(5) of the 2015 act (see section 4.1 below)

B. A relevant Welsh exit payment, as defined in s 153B(6) of the 2015 act

C. Payments made by Northern Irish authorities which wholly or mainly exercise devolved functions

The following categories of public sector employer are within scope of these regulations where they fall within the responsibility of the UK government, regarding their employment:

- the UK Civil Service, its executive agencies, non-ministerial departments and non-departmental public bodies (including Crown non-departmental public bodies and Her Majesty's Prison and Probation Service)
- the NHS in England and Wales⁴
- academy schools
- local government including fire authorities' employees and maintained schools
- police forces, including civilian and uniformed officers

Some bodies have more than one classification. For example, if an executive agency is also classified as a type of body not currently in scope of the cap, such as a trading fund, it should not be captured during this round of implementation.

The full list of proposed public sector bodies in scope of the draft regulations are listed in draft schedule 1. The categories of final employers which will be included in schedule 1 is subject to responses to the consultation.

All public sector employers should make value for money decisions on exit payments, and spend public money responsibly. It is the government's strong expectation that bodies not in the proposed scope of these regulations will come forward with their own, commensurate cap on exit payments.

2.2 Bodies and payments exempt in the draft regulations

The government proposes that the Secret Intelligence Service, the Security Service, the Government Communications Headquarters and the Armed Forces should be exempt from the cap. Therefore, these employers are not listed in draft schedule 1 to the regulations.

Careers in these organisations have unique features, and the special requirements made of individuals – including the transition to civilian life – are reflected in the range and level of compensation payments for these workforces. Compensation and resettlement payments make up a core part of the overall remuneration and reward package for those working in these fields, and payments are sometimes required in order to ensure that individuals are properly compensated for what can be lifelong impacts, felt at relatively early ages. The government believes it is right that – in general – these employers have flexible and responsive remuneration practices which may fall outside of the scope of the draft regulations.

As a general rule accrued pension rights, including rights to pension commutation lump sums, are not within scope of the draft regulations because they do not normally involve any cost to the employer. However, in some cases pension payments do involve an additional employer cost relating to an exit and often represent a significant amount of an individual's exit payment. For this reason they are within scope of the draft regulations unless an exemption applies. These payments arise when an employer has to make a 'pension strain' payment, for example to provide the pension scheme member with an immediate unreduced pension before the member's Normal Pension Age or when an employer has to make a pension commutation related payment.

Fire and Rescue Authorities (FRAs) have discretion to remove the current commutation lump sum restriction (of 2.25 x pension) that applies to firefighter members of the 1992 Firefighters' Pension Scheme who are under age 55 and have less than 30 years' service. Where a FRA exercises this discretion, this results in an employer related cost because it is required to make a payment equivalent to the additional amount to the member's pension fund account. It is proposed that these payments should be exempt from the scope of the regulations as they do not fund an increase in the actuarial value of the firefighter's pension.

Therefore, regulation 7(c)(i) exempts payments made by a FRA to their pension fund account, where the FRA exercises its discretion to allow a firefighter (who is subject to the above 2.25 times pension commutation lump sum restriction) to commute up to a maximum of 25% of their annual pension for a pension lump sum. Effectively, this discretion aligns with the commutation entitlement available to firefighters who are aged 55 or over, or who have accrued the maximum 30 years' service.

The government is also considering an exemption for payments made by FRAs to their pension fund account in respect of firefighters who are unable to maintain operational fitness through no fault of their own and where the FRA has agreed to put into payment an authority initiated early retirement pension. This will honour the government's previous commitment

(<https://publications.parliament.uk/pa/cm201415/cmhansrd/cm141215/wmstext/141215m0001.htm>) that firefighter members of the 2006 and 2015 Firefighters' Pension Schemes in these circumstances should be awarded an unreduced pension if they cannot be redeployed.

Question 1

Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.

Question 2

Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

Question 3

Do you agree with the exemptions outlined? If not, please provide evidence.

3. Guidance and directions

The government welcomes comment on the attached guidance and directions.

The guidance aims to explain, in plain English, how the draft regulations should be applied. In particular, the guidance details the circumstances in which the cap may and must be relaxed, and which actors have the power to relax the cap.

Section 5 of the guidance and the separate mandatory HMT directions are intended to ensure that the cap must be relaxed in specific mandatory cases, for example where a settlement agreement is entered into following a whistleblowing or discrimination complaint, and where it may be relaxed in specific discretionary cases, for example where imposing the cap would cause undue hardship.

This reflects the government's position – and the position reflected in the draft regulations – that the public sector exit payment cap is not designed to discourage workers from making disclosures covered by whistleblowing law or to prevent such people from receiving an appropriate remedy from an employment tribunal.

Question 4

Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

Question 5

Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

Question 6

Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

4. Devolution summary and equalities impacts

4.1 Devolution

The cap policy extends to all the bodies where employment terms are subject to approval by the UK government (subject to exemptions set out in the remaining paragraphs of section 4.1).

Payments made by authorities which wholly or mainly exercise functions that could be devolved to Northern Ireland are not covered by the draft regulations.

Payments made by a relevant Scottish authority, namely the Scottish Parliamentary Corporate authority or any authority which wholly or mainly exercises functions devolved to Scotland are also not covered by these regulations, with the exception of payments made by the Scottish Administration to holders of non-ministerial offices in the administration or to staff of the administration, which are covered by these regulations.

Relevant Welsh exit payments, namely payments made to the holders of the offices specified in s 153B(6) of the Enterprise Act 2016 are not covered by these regulations.

The regulations contain a power in regulation 12 to relax the exit payment cap following compliance with HMT directions or with consent of HMT, however this power does not apply to exit payments made by a devolved Welsh authority.

4.2 Equalities

An equalities impact assessment of the cap (<https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap#impact-analysis>) was conducted in the previous consultation, ahead of legislation on the policy.

If, following consultation, the government decides to implement a two stage implementation process, it will do so on the basis of a further assessment of the equalities impact.

Question 7

Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

Question 8

Are you able to provide information and data in relation to the impacts set out above?

5. Summary of questions

Question 1

Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.

Question 2

Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

Question 3

Do you agree with the exemptions outlined? If not, please provide evidence.

Question 4

Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

Question 5

Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

Question 6

Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.


Question 7


Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

Question 8

Are you able to provide information and data in relation to the impacts set out above?

1. Whole of Government Accounts 2016-17

(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720178/WGA_2016-17_web.pdf), page 70. 

2. Mean public sector earnings according to the ONS: £29,574 

3. Whole of Government Accounts 2016-17

(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720178/WGA_2016-17_web.pdf), page 70, Table 4.E. 

4. The 2015 Act confers power to cap exit payments in the NHS in Wales, because the compensation schemes are not devolved to Welsh ministers. 