London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee
Agenda

Thursday 12 September 2019 at 7.00 pm
Meeting Room 1 (2nd Floor) - 3 Shortlands, Hammersmith, W6 8DA

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy Councillor Rebecca Harvey Councillor PJ Murphy	Councillor Matt Thorley
Co-optee	
Michael Adam	

Shortlands

3 Shortlands,
Hammersmith,
London W6 8DA

Closest Underground Station
Hammersmith

Closest Bus Stop
Latymer Court (Stop G)

CONTACT OFFICER: Amrita Gill
Committee Coordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

Reports on the open agenda are available on the Council's website:
www.lbhf.gov.uk/committees

Members of the Public are welcome to attend A loop system for hearing impairment is provided, together with disabled access to the building

.

Date Issued: 03 September 2019

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee
Agenda

Item		**Pages**
1.	**MINUTES OF THE PREVIOUS MEETING** To approve as an accurate record and the Chair to sign the minutes of the meeting held on 9 July 2019.	4 - 10
2.	**APOLOGIES FOR ABSENCE**	
3.	**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.	
4.	**QUARTERLY UPDATE PACK** This paper provides the Pension Fund Sub-Committee with a summary of the Pension Fund's overall performance for the quarter ended 30 June 2019.	11 - 27
5.	**LCIV PENSIONS RECHARGE & GUARANTEE AGREEMENT** The purpose of this report is to present the situation with regard to the London Collective Investment Vehicle's (LCIV) pensions recharge and guarantee of liability, currently held by the City of London Corporation as the Local Government Pension Scheme (LGPS) Administering Authority for the LCIV as an external employer.	28 - 32

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Tuesday 9 July 2019

PRESENT

Committee members: Councillors Iain Cassidy, PJ Murphy and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), David Coates (HR and Payroll Consultant), Dawn Aunger (Assistant Director – People and Talent) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson & Jonny Moore (Deloitte)
Heather Brown & Ian Berry (Aviva Investors)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –
THAT, the minutes of the meeting held on 26 March 2019 were approved and signed by the chair

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –
THAT, the minutes of the meeting held on 26 March 2019 were approved and signed by the chair

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rebecca Harvey, Mathew Hopson and Tim Mpofo.

3. DECLARATIONS OF INTEREST

There were no declarations of Interest.

4. QUARTERLY UPDATE PACK

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.

The Chair welcomed Heather Brown and Ian Berry (Aviva Investors) to provide a presentation, relating to the performance of the Aviva Fund. The following points were noted:

- In December 2017 the Council made a £30m investment in the Fund.
- The Fund invested in low risk assets for regular long-term incomes. Majority of the fund was invested in small scale solar PV and utility-scale onshore wind sectors.
- An overview of the Fund's characteristics was provided.
- The Fund provided a stable level of regular income of 7-8% yield per annum. It was noted that past performance was not a guide to future performance and the value of an investment in the Fund could decrease as well as increase.
- Aviva had excellent Environmental, Social and Governance (ESG) credentials and worked together with an independent consultant to develop a 'carbon calculator' tool to measure the carbon equivalent savings associates with the portfolio.
- Approximately 20% of the Fund's portfolio was installed on social housing properties, with an expected higher rate of individuals experiencing fuel poverty than average.
- An overview was provided of the total transaction value held across Aviva's managed portfolios.

Councillor PJ Murphy, referring to the market sectors slide in the presentation asked if the Fund would face any challenges in terms of long-term sustainability after taking into consideration any potential changes to the Government legislation. In response Ian Berry explained that all of the sectors were sustainable in the longer-term. There was always a potential of risk, but this took place very rarely. In addition, Aviva Investors were not concerned about any legislation changes as all the portfolios were well regulated and contracted.

Michael Adam, Co-opted Member asked for further clarification to be provided around the asset split between the different market sectors. Ian Berry explained that the investments were structured to provide stable value across the market. In addition, the current assets would last for 25 operational years. The Fund was expected to grow as it stood, subject to any variation to the valuation. Council officers would be provided with regular updates of any potential changes made to the Fund. In addition, the Fund would operate using an open-ended scheme after the first 5 years and regular developments would take place ensuring that the rate of yield was being maintained.

Councillor Matt Thorley commented that the presentation was very useful and was impressed with the Fund's performance to date.

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

Jonny Moore (Deloitte) provided an update of the overall performance for the quarter ended 31 March 2019. It was noted that the Fund was overweight to equities and inflation protection relative to the strategic benchmark.

Over this quarter, the total Fund returned 5.5% on a net of fees basis, outperforming the fixed weight benchmark by 0.3%. In addition, the total Fund underperformed the benchmark by 1.7% on a net of fees basis over this year to 31 March 2019, returning 6.3%.

At the February 2019 Pensions Fund 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 was managed by PIMCO.

Phil Triggs, Director of Treasury & Pensions, explained that Mike O'Donnell was appointed as the London CIV's (LCIV) Chief Executive Officer (CEO) at the beginning of March 2019. In addition, following quarter end, at the beginning of May 2019, Michael Pratten joined as interim Chief Investment Officer (CIO).

The Chair, referring to Appendix 1, asked for clarification around the difference between the number of employers during the period of June 2018 to September 2019. Phil Triggs said that he would circulate a detailed explanation after the meeting.

Action: Phil Triggs

Councillor PJ Murphy asked for an update to be provided on the progress made to date by LCIV. In response Phil Triggs explained that good progress had been made and increased confidence and enthusiasm was expressed amongst London Local Authorities. The key to this positive transition was the appointment of the CEO and CIO who both demonstrated wide knowledge, experience and expertise. In addition, the general view within London local authorities on pooling was to continue engagement with LCIV. It was noted that funds would retain responsibility for strategic asset allocation whilst LCIV would be responsible for manager selection, in line with the most recent pending legislation developments.

The Chair asked if the LCIV intended to provide higher level of support to LA's for ESG factors going forward. In response, Phil Triggs said that that he would need to review the business plan to establish this. However, he felt that, whilst good progress was being made, there would be a period of readjustment before the LCIV could provide a similar level of service to the Brunel Pension Fund.

RESOLVED -
THAT, the Sub-Committee noted this report.

5. MCCLOUD, COST CAP AND VALUATION

Phil Triggs, Director of Treasury and Pensions introduced the report and provided an update on the cost cap in public service pensions and recent developments. Whilst the cost cap/floor mechanism would normally be underway at this time, the Government Actuaries Department (GAD) had suspended the process, pending the outcome of the McCloud Supreme Court case.

It was highly unlikely that there would be any resolution before the 2019 actuarial valuation was complete. However, there were several possible ways of treating the outcome of the McCloud appeal and the cost management process. The LGPS Scheme Advisory Board (SAB) was due to issue guidance to funds and actuaries on the preferred approach.

RESOLVED -
THAT, the Sub-Committee noted the report and potential implications for the Hammersmith & Fulham Pension Fund and the consultation on the actuarial valuation process at Appendix 1.

6. EXIT CAP CONSULTATION

David Coates, HR and Payroll Consultant provided an overview and summary of the background of the proposed cap on exit payments in the public sector. On 10 April 2019, HM Treasury opened a consultation, and this would close on 3 July 2019.

The exit cap covered redundancy payments (including statutory redundancy payments), severance payments, pension strain costs, and all other payments made as a result of the termination of employments. The statutory redundancy element of an exit payment cannot be reduced. If the cap was exceeded, other elements that made up the exit payment must be reduced, to ensure that an exit payment not above £95,000 was achieved.

The general feeling amongst stakeholders was that the exit cap would apply beyond those considered by the Government to be 'high earners' and would now be likely to include middle and lower management salary grades with long service in the LGPS and whose employment was being terminated prior to their normal pension age. In addition, the Council could only override the cap in certain circumstances, these include GP considerations, whistleblowing or discrimination claims and discretionary grounds.

The Council had responded formally to the consultation and a copy of the response was tabled during the meeting.

The chair asked for further clarification to be provided on how these changes would be implemented. David Coates explained that the LGPS regulations would need to be amended to allow the cap to be implemented. It was not clear how benefit calculations would be calculated and how the cap would be introduced. In addition, the Government had not yet carried out an equalities impact assessment and a precise future timing for this had not been established.

Councillor PJ Murphy asked how these proposed changes would impact staff contractually. In response David Coates explained that the contract of employment would be overridden for the staff members who would be affected by this change. Statutory redundancy payments were protected but contractual payments were not covered under the new arrangements.

RESOLVED –

- THAT, the Sub-Committee noted the report.

7. ACCOUNTS AND ANNUAL REPORT

Phil Triggs, Director of Treasury and Pensions introduced the report which included the Pension Fund Accounts 2018/19. This was a regulatory requirement and needed to be approved by the Pension Fund Sub-Committee by 30 September following the year end. In addition, the external audit was currently underway, beginning on 1 July 2019. The Pension Fund investments returned 5.0% over the year, although this was 2.5% below the benchmark for the year. The Fund suffered poor performance from its UK Equities allocation and poor returns from its diversified growth fund. The Fund remained ahead of its benchmark over a ten-year time horizon and since inception.

Members expressed their disappointment of the Fund's underperformance in comparison to the London average.

RESOLVED -

THAT, the Sub-Committee approved the Pension Fund Annual Report for 2018/19 and noted the Pension Fund Accounts for 2018/19.

8. UK EQUITY MANDATE REVIEW

Kevin Humpherson, Deloitte introduced the report and noted that the Partners Group Fund was in wind down, therefore recommended that the Committee explored other alternatives to reallocate the investment.

It was noted that Majedie Asset Management had run the UK Equities mandate since 2005, outperforming the market by around 2.6% on a since inception basis (annualised). The main points to note from the report were:

- Majedie had experienced poor performance in the last two years, with significant underperformance in 2017 when compared with the FTSE All Share Index.
- Majedie had suffered particularly from a small part of its portfolio that had significantly underperformed.
- Long term performance did however still remain positive.
- The portfolio invested primarily in stocks with high percentages of earnings generated overseas, providing less currency risk diversification.
- There were no long-term concerns with Majedie Asset Management in continuing to manage the mandate if the Committee wished to maintain an allocation to UK Equities

Michael Adam, Co-opted Member asked for further clarification to be provided around the Fund's positioning. In response Kevin Humpherson said that the Council would need to review its total UK equity portfolio. Majedie had not positioned the Fund on the basis of a particular Brexit outcome and as such held a mostly balanced portfolio. The UK Equity Fund had always used stock selection and sector views as opposed to relying on the macroeconomic views. The UK Equity Fund had less exposure to UK companies with global revenues in comparison to the wider market, therefore should be less affected by a sterling rally should Brexit developments prove favourable. However, this position would lose out if sterling depreciated further as a result of a no deal Brexit.

The Chait asked how quickly the Council could exit Majedie, should the Committee consider an alternative asset class within Equities. In response Kevin Humpherson said that a plan would need to be agreed and this could be effectively implemented very soon. A redemption request would be made to the LCIV. There would be no redemption fees, however a standard transition cost would apply.

Members asked whether the Fund's performance was collectively monitored. Kevin Humpherson said that this had been monitored and views were based on the track record and past performance of the active manager when dealing with this type of investment in equities.

Phil Triggs, Director of Treasury and Pensions noted that all the other local authorities in this sub fund had withdrawn and only two still remained invested in the Majedie fund. In addition, should the committee decide to withdraw, they should consider reallocating the portfolio to the passive global markets due to the risk faced with UK equity markets. For example, the MSCI Low Carbon Global Index would be worth exploring as a short-term investment.

The Chair requested that a breakdown of the Fund's asset allocation, including interim valuations be brought to the next meeting for a further review.

RESOLVED -
THAT, the Sub-Committee noted the current performance of Majedie and approved the immediate termination of the LCIV Majedie UK Equities portfolio and transition of the portfolio to the LGIM MSCI Global Low Carbon Index-Tracker fund.

9. CASH MANAGEMENT

Phil Triggs Director of Treasury and Pensions provided a summary of the Pension Fund's current cash managers and future recommendations for the effective management of cash for the fund.

RESOLVED -
THAT, the Sub-Committee noted the key details of each of the fund's existing cash managers and approved the transfer of the cash in the LGIM Sterling

Liquidity Fund into the Northern Trust custody account and use of the Northern Trust as the main account for any future asset transitions.

10. 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.

11. UK EQUITY MANDATE REVIEW - EXEMPT ELEMENTS

The exempt elements of this item were noted and discussed in conjunction with item 8.

RESOLVED -
THAT, the Sub-Committee noted the exempt elements.

Meeting started: 7:00pm
Meeting ended: 9:00pm

Chair ....

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

London Borough of Hammersmith & Fulham PENSIONS FUND SUB-COMMITTEE 12 September 2019	
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, Director of Pensions and Treasury	
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 Pension Fund Sub-Committee with a summary of the Pension Fund's:

a. Overall performance for the quarter ended 30 June 2019.
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 Pension Fund Sub-Committee is recommended to note this report.

3. LBHF PENSION FUND QUARTERLY UPDATE – Q1 2019/20

3.1. This report and associated appendices make up the pack for the quarter ended 30 June 2019. 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. For this meeting, this item has been included in the exempt agenda as it contains some sensitive information. Kevin Humpherson from Deloitte will be attending the meeting to present this report.

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 last quarter, as well as cashflow forecasts to March 2010. 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 risks and the actions taken to mitigate them. These also highlight the risks that are increasing in their likelihood for enhanced monitoring by officers.

3.5. A summary of the voting undertaken by the investment managers running segregated equity portfolios forms Appendix 5. This includes LGIM and both London CIV Majedie and London CIV Ruffer funds.

3.6. Appendix 6 gives an update on the Forward Plan as at 30 June 2019.

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 30 June 2019
Appendix 2: Deloitte Quarterly Report for Quarter Ended 30 June 2019
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 30 June 2019

HAMMERSMITH AND FULHAM PENSION FUND QUARTERLY MONITORING

	Sep 18	Dec 18	Mar 19	June 19	Comment/ Report Ref if applicable
Value (£m)	1,055.6	986.6	1,037.0	1,067.3	Deloitte Report Gross of Fees
% return quarter	1.6%	-5.7%	5.5%	3.2%	
% return one year	5.8%	-2.8%	6.3%	4.8%	
LIABILITIES					
Value (£m)	1,045.9	1,057.3	1,057.3	1,057.3	No funding update was carried out in Q1 2019, as the assumptions have been changed ahead of the triennial valuation
Deficit (£m)	38.2	27.6	27.6	27.6	
Funding Level	96%	97%	97%	97%	
MEMBERSHIP					
Active members	4,307	4,306	4,332	4,332	The number of employers has decreased due to a data cleanse exercise. There were only a couple of cessations during the period
Deferred beneficiaries	5,752	5,703	6,840	6,840	
Pensioners	4,986	5,018	5,111	5,111	
Employers	61	61	50*	50	
CASHFLOW					
Cash balance	£4.1m	£0.8m	£2.7m	£2.5m	Appendix 3
Variance from forecast	£0.4m	-£0.6m	£0.8m	£1.0m	
RISK					
No. of new risks	39	2	0	0	Appendix 4 – Risk Register
No. of ratings changed	0	0	16	0	
VOTING					
No. of resolutions voted on by fund managers	4,183	3,182	324	15,401	Appendix 5 – LGIM, Ruffer & Majedie
LGPS REGULATIONS					
New consultations	None	MHCLG Pooling	MHCLG Pooling 95K Cap	None	
New sets of regulations	IFRS9	None	None	None	

Fund's Environmental, Social & Governance (ESG) Report — 30 June 2019

On 17 July 2019, Hammersmith & Fulham Council declared a climate emergency pledging to achieve carbon neutrality by 2030. Carbon neutrality can be achieved by simply eliminating carbon emissions altogether or by balancing carbon emissions with carbon removal. For the pension fund, it is difficult to completely eliminate carbon emissions from the fund's investments activities. A significant proportion of global economic activity still relies heavily on activities that produce CO_2 emissions.

However, the pension fund has made some strides to limiting its contribution to activities that result in high CO_2 output by investing all its passive holdings in the MSCI World Low Carbon tracker fund with Legal & General, which has 61% less CO_2 output than the global benchmark. This constitutes the fund's largest holding at £400m (37%).

The pension fund also has two infrastructure funds which invest in renewable energy projects:

- Aviva Infrastructure Fund (£30m) - invests in onshore wind farms, domestic solar installation projects and biomass utilities (which are currently under construction)
- Partners Group Infrastructure Fund (€55m committed capital) - invests in a wide range of direct infrastructure projects of which 74% are related to renewable energy production and distribution

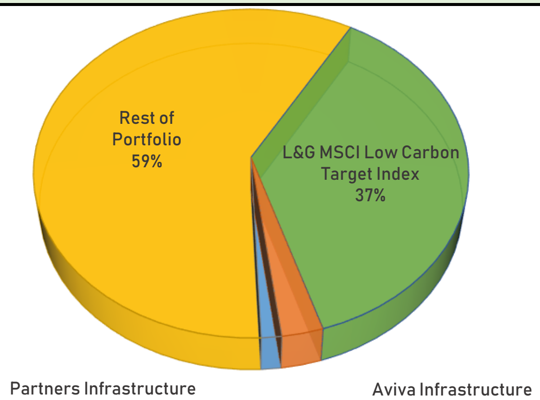
Value of Assets Invested in Carbon Friendly

Investment Fund	£000
MSCI Low Carbon	400,042
Aviva Infrastructure	30,644
Partners Infrastructure	15,029

Total Carbon Friendly Investment Value

£446mil

Investments in Carbon Friendly Investments



Carbon Savings Update

The measurement of carbon savings is still evolving within the investment industry.

- Aviva Infrastructure have an external consultant who calculates the estimated carbon savings on an annual basis.
- The carbon savings from the MSCI Low Carbon investment was calculated a year ago prior to the switch.
- Partners Group Infrastructure Fund is still in the construction phase for most of its renewable assets so it is difficult to reliably calculate the carbon savings.

% Carbon Friendly Investments

41%

Estimated Aviva Carbon Savings

11,100 CO_2 per annum

* Equivalent to keeping 51k cars off the road each year.

Estimated MSCI Low Carbon Savings

43,035 CO_2 per annum

Appendix 3: Cashflow Monitoring Position as at 30 June 2019

Pension Fund Current Account Cashflow Actuals and Forecast for period April 2019 to March 2020

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Forecast Annual Total	Forecast Monthly Total
	£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		
Balance b/f	**2,673**	**8,007**	**2,167**	**2,450**	**450**	**450**	**1,850**	**1,850**	**1,850**	**2,450**	**2,450**	**2,450**	**£000s**	**£000s**
Contributions	9,087	2,115	2,551	(3,000)	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	**32,654**	**2,721**
Pensions	(2,583)	(2,781)	(2,687)	(700)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	**(36,136)**	**(3,011)**
Lump Sums	(386)	(487)	(64)	(200)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	**(8,424)**	**(702)**
Net TVs in/(out)	342	127	468	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	**(862)**	**(72)**
Expenses	(652)	(61)	(310)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	**(2,823)**	**(235)**
Net Cash Surplus/(Deficit)	**5,334**	**(1,840)**	**(1,085)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(14,058)**	**(1,299)**
Distributions	-	-	1,368	-	-	1,400	-	-	600	-	-	1,400	**4,768**	**397**
Net Cash Surplus/(Deficit) including investment income	**5,334**	**(1,840)**	**283**	**(2,000)**	**(2,000)**	**(600)**	**(2,000)**	**(2,000)**	**(1,400)**	**(2,000)**	**(2,000)**	**(600)**	**(10,823)**	**(545)**
Withdrawals from Custody Cash	-	(4,000)	-	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000	-	**10,000**	**833**
Balance c/f	**8,007**	**2,167**	**2,450**	**450**	**450**	**1,850**	**1,850**	**1,850**	**2,450**	**2,450**	**2,450**	**1,850**	**(823)**	**(69)**

Current Account Cashflow Actuals Compared to Forecast During the April 2019 to June 2020Quarter

	Apr-19		May-19		Jun-19		Jan – Mar 19
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	9,000	2,306	2,000	2,115	2,000	2,551	584
Pensions	(2,800)	(3,057)	(3,034)	(2,781)	(2,800)	(3,045)	350
Lump Sums	(600)	(386)	(600)	(987)	(600)	(750)	678
Net TVs in/(out)	(300)	342	(300)	127	(300)	468	1,738
Expenses	(200)	(652)	(200)	(61)	(200)	(310)	(423)
Distributions	-	-	-	-	1,300	1,368	68
Withdrawals from Custody Cash	(4,000)	-	-	(4,000)	-	-	-
Total	**1,100**	**5,334**	**(1,800)**	**(5,840)**	**(500)**	**283**	**977**

Notes on variances during quarter:

- In April 2019, the Council paid its Employer Deficit Contribution of about £7m which led to a larger than usual net cash surplus in the month.
- This net surplus was transferred to the custody cash account as it pays a better interest rate than the RBS bank account.
- There were not cash drawdowns during the quarter, however, going forward the Fund will expect to drawdown at least £2m each month for the remainder of the year. This is due to the reduction in distributions as a result of the Majedie termination.

Pension Fund Custody Invested Cashflow Actuals and Forecast for period April 2019 to March 2020

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Forecast Annual Total
	£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	
Balance b/f	**108,793**	**110,635**	**31,817**	**30,042**	**30,042**	**29,242**	**27,242**	**26,442**	**24,442**	**23,642**	**21,642**	**20,842**	**£000s**
Sale of Assets	-	-	-										**-**
Purchase of Assets	(3)	(85,003)	(1,629)										**(86,635)**
Net Capital Cashflows	**(3)**	**(85,003)**	**(1,629)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(86,635)**
Distributions	1,744	2,056	-	-	1,200	-	1,200	-	1,200	-	1,200	-	**8,600**
Interest	80	24	19										**124**
Management Expenses	-	(2)	(181)										(183)
Foreign Exchange Gains/Losses	(2)	105	(2)										**102**
Class Actions	23	-	18										**41**
Net Revenue Cashflows	**1,845**	**2,184**	**(145)**	**-**	**1,200**	**-**	**1,200**	**-**	**1,200**	**-**	**1,200**	**-**	8,684
Net Cash Surplus/(Deficit) excluding withdrawals	**1,842**	**(82,819)**	**(1,774)**	**-**	(83,600)	**-**	**1,400**	**-**	**1,400**	**-**	**1,400**	**-**	**(77,951)**
Withdrawals from Custody Cash	-	4,000	-	-	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	-	**(10,000)**
Balance c/f	**110,635**	**31,817**	**30,042**	**30,042**	**29,242**	**27,242**	**26,442**	**24,442**	**23,642**	**21,642**	**20,842**	**20,842**	**(87,951)**

Notes on Invested Cash Movements

- In March 2019, the Pension Sub-Committee agreed to invest £85m into the LCIV Global Bond Fund under PIMCO's management. These funds had been held in the Legal & General Liquidity Fund temporarily pending the completion of investment process. The investment was completed on 8 May 2019
- During the quarter, the following amounts were distributed back to the pension fund:
    - £3.1m from Partners Group Multi Asset Credit Fund
    - £0.1m from the Invesco Private Equity Funds
- During the quarter, £2.7m was invested as follows:
    - £1.6m capital call into the Partners Group Direct Infrastructure Fund

London Borough of Hammersmith and Fulham Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised likelihood	Total risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Admin	1		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	26/06/2019
Admin	2		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	26/06/2019
Admin	3		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	**11**	26/06/2019
Admin	4		Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	**10**	26/06/2019
Admin	5		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	**18**	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	1	**9**	26/06/2019
Admin	6		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	**16**	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	**8**	26/06/2019
Admin	7		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	26/06/2019
Admin	8		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	26/06/2019

Admin	9	↔	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	TOLERATE 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	**7**	26/06/2019
Admin	10	↓	Bank reconcilations no longer carried out by BT. Income processing from the bank has been brought in house. HCC have agreed a new process of allocating income on to the ledger, however a steep learning curve still exists leading to misallocations and delay in the clearance of the suspense account.	2	2	2	6	2	**12**	TREAT 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed process	1	**6**	26/06/2019
Admin	11	↔	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	2	3	6	2	**12**	TOLERATE 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. Service has been excellent since this change was made.	1	**6**	26/06/2019
Admin	12	↔	Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	**6**	26/06/2019
Admin	13	↔	Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	26/06/2019
Admin	14	↔	Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	2	**12**	TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	26/06/2019
Admin	15	↔	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	**6**	26/06/2019
Admin	16	↓	BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in December 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.	1	2	2	5	2	**10**	TREAT 1) The Bi-borough HR team are working with HCC and BT to ensure service transfer is smooth as possible. 2) 2018/19 LGPS files to be checked by the Bi-borough in June 2019.	1	**5**	26/06/2019
Admin	17	↓	Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	**5**	26/06/2019
Admin	18	↔	Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	26/06/2019
Admin	19	↔	Rise in ill health retirements impact employer organisations.	2	2	1	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**	26/06/2019
Admin	20	↔	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	26/06/2019
Admin	21	↔	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	2	**8**	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	1	**4**	26/06/2019

London Borough of Hammermsmith & Fulham Pension Fund Risk Register - Investment Risk														
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Governance	1		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**	26/06/2019
Funding	2		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is going down	2	**22**	26/06/2019
Funding	3		Transfers out of the scheme increase significantly due to members transferring their pensions 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. Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rate due to uncertainty in the economic environment	2	**20**	26/06/2019
Funding	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**	26/06/2019
Investment	5		Significant volatility and negative sentiment in global investment markets following disruptive politically uncertainty caused by the tradewar been the US and China	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**	26/06/2019
Funding	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**	26/06/2019
Funding	7		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**	26/06/2019
Investment	8		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**	26/06/2019

Investment	9		Volatility caused by uncertainty regarding to the withdrawal of the UK from the European Union, with the likelihood of a no-deal exit increasing	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**	26/06/2019
Investment	10		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**	26/06/2019
Funding	11		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**	26/06/2019
Governance	12		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**	1) 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) LCIV have recently appointed a new CEO.	2	**16**	26/06/2019
Operational	13		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**	26/06/2019
Funding	14		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**	26/06/2019
Funding	15		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**	26/06/2019

Governance	16	↑	Changes to LGPS Regulations	3	2	1	6	3	18	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 considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing 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	26/06/2019
Governance	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	26/06/2019
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	26/06/2019
Governance	19	↔	Failure by the audit committee to perfom 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 governence issues are regularly tabled.	2	12	26/06/2019
Governance	20	↑	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	3	18	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.	2	12	26/06/2019
Funding	21	↓	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 - 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly distributions from some of its investments to help meet its pensions obligations.	1	11	26/06/2019
Funding	22	↔	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	26/06/2019
Financial	23	↔	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	26/06/2019
Operational	24	↔	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	26/06/2019

Governance	25		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	26/06/2019
Funding	26		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	26/06/2019
Operational	27		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.	2	10	26/06/2019
Governance	28		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	26/06/2019
Operational	29		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	26/06/2019
Governance	30		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	26/06/2019
Investment	31		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	26/06/2019
Operational	32		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	26/06/2019
Investment	33		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	26/06/2019
Governance	34		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	26/06/2019

Governance	35	↔	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	26/06/2019
Funding	36	↔	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	26/06/2019
Governance	37	↔	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	26/06/2019
Operational	38	↓	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) The Fund currently holds investments in the MSCI Low Carbon and Aviva Renewables Infrastructure Fund 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	26/06/2019
Financial	39	↓	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	26/06/2019
Regulation	40	↔	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	26/06/2019
Governance	41	↔	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	26/06/2019
Regulation	42	↔	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	26/06/2019
Funding	43	↔	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	26/06/2019

Regulation	44		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**	26/06/2019

Appendix 5: Pension Fund Voting Summary: April – June 2019

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	54
No. of meetings	56
No. of resolutions	1,063

LCIV Ruffer voting information is as follows:

VOTING	
No. of companies	43
No. of meetings	44
No. of resolutions	683

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 2019 quarter.

VOTING	
No. of companies	953
No. of meetings	968
No. of resolutions	13,655

Appendix 6

Forward Plan for Pensions Sub-Committee – June 2019

Area of work	Sep 2019	November 2019	February 2020	July 2020
Governance	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes Governance Compliance Statement review Consultation updates	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring Investment Strategy Review	Fund Manager monitoring LCIV update	Fund Manager monitoring Investment strategy statement	Fund Manager monitoring
Funding		Actuarial Valuation Review	Actuarial Valuation Final Funding Strategy Statement	Actuarial Valuation Review

Agenda Item 5

London Borough of Hammersmith & Fulham **PENSIONS FUND SUB-COMMITTEE** **12 September 2019**	hammersmith & fulham
LCIV PENSIONS RECHARGE AND GUARANTEE AGREEMENT	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Decision **Key Decision: No**	
Wards Affected: None	
Accountable Director: Philip Triggs, Director of Pensions & Treasury	
Report Author: Philip Triggs, Director of Pensions & Treasury	**Contact Details:** Tel: 0207 641 4136 E-mail: ptriggs@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to present the situation with regard to the London Collective Investment Vehicle's (LCIV) pensions recharge and guarantee of liability, currently held by the City of London Corporation as the Local Government Pension Scheme (LGPS) Administering Authority for the LCIV as an external employer.

2. RECOMMENDATIONS

2.1 The Pensions Sub-Committee is recommended to consider the contents of this report with a view to making a decision referencing the approval and signing of the Pensions Recharge and Guarantee of Liability Agreement.

3 BACKGROUND

3.1 The current LGPS pensions arrangements for LCIV staff were established in 2015 as part of the arrangements to set up the LCIV. It took some time for the LCIV to put the arrangements in place because of the need for Secretary of State approval for the LCIV to be granted admitted body status in the City of London Corporation LGPS Scheme.

3.2 Lawyers advised that the contractual provisions in the LCIV Shareholder Agreement for shareholders to share pensions liabilities were not sufficient in the case of the LGPS scheme and therefore the Corporation would require a separate guarantee agreement document.

3.3 The Corporation originally agreed to admit the LCIV on condition that the other 31 shareholders (London Local Authorities as shareholders in the LCIV) enter into a multi-part guarantee agreement.

4 REQUIREMENT FOR A PENSION RECHARGE AGREEMENT AND LIABILITY GUARANTEE

4.1 The Pension Recharge Agreement seeks to address the impact of FRS102 accounting requirements on the balance sheet and regulatory capital requirements. The Pension Recharge Agreement will create an asset which reduces the likelihood of a requirement to contribute additional regulatory capital.

4.2 It should be noted that liability guarantee requirements are set by the City of London Corporation and are based on an actuarial assessment. The Corporation has authorised the admission of the LCIV to the Corporation's LGPS Fund on the basis of a liability guarantee agreement.

4.3 An explicit liability guarantee is required by the Corporation who have been advised that they cannot rely on clause 3.7 in the Shareholder Agreement which was originally thought to be possible. Thus, the LCIV has requested that shareholder local authorities sign the pension recharge and liability guarantee agreements, which will require Committee approval prior to signature.

5 TECHNICAL ASPECTS OF THE PENSION RECHARGE AND LIABILITY GUARANTEE

5.1 The nature of the Pension Recharge Agreement is that the London Local Authorities are liable only for 1/32 of the costs, whether current or any shortfall on exit. There is no additional service charge payment required as a result of signing the Pension Recharge Agreement. In the circumstance that an exit liability clause was invoked before all 32 authorities had signed the agreement, the London Local Authorities would each bear 1/32 of the costs. The Shareholder Agreement envisages that authorities will share liabilities.

5.3 If an exit payment created a regulatory capital shortfall, the LCIV Directors would look to ensure that additional regulatory capital was obtained from all 32 Shareholders as per the Shareholder Agreement. The Pension Recharge Agreement is being put in place as a supplement to the Shareholder Agreement.

5.4 The LCIV expects to take responsibility for pension strain. The treatment of strain costs will be set out in the Admission Agreement as is standard. In principle, costs which incur a strain will be fully paid for by LCIV at the time when the strain is incurred. The strain costs will need to be in the interests of the LCIV and paid from the budget. However, ultimately, the 32 funds will bear the responsibility for strain as a result of the guarantee.

5.5 The main control over responsible management decision-making is the Company Board, its Remuneration Committee and the reporting mechanism to the 32 shareholders, who are also its clients. The shareholders agree the Medium Term Financial Strategy (MTFS) and budget annually. This includes staff numbers projected to grow to about 30 (the higher earners will not be in the LGPS).

5.6 The Pension Recharge Agreement and the Liability Guarantee Agreement effectively deliver funding for a guarantee in respect of the various payments that LCIV may have to provide to the City of London Pension Fund. The Shareholder Agreement obliges local authority shareholders to use all reasonable endeavours to promote and develop the business of the LCIV company to the best advantage in accordance with good practice and the highest ethical standards. It also requires authorities to be "just and true to, and act in good faith towards, the others; and generally do all things necessary to give effect to the terms of the Shareholder Agreement".

6 CONCERNS EXPRESSED BY LONDON LOCAL AUTHORITIES

6.1 The London Local Authorities requested an independent review of the LGPS pensions provision, as well as the possibility of closing the LGPS to new members, or lowering the current £120,000 cap. The general feeling was that the cap was too high, given the absence of any similar defined benefit pensions provision within the financial sector.

6.2 The main point of contention was that the London CIV had not taken out the pension strain element from the pensions recharge proposal. The strain would be the cost borne by the LCIV when the Board implements decisions that result in cost, e.g. granting redundancy payments, pension strain and added years to an employee who retires ages over age 55 and who takes receipt of an unreduced pension.

6.3 With most LGPS Funds, the relevant spending department (and this includes all external employer bodies) would immediately pick up this pension strain cost, not the pension fund. The current proposal could result in passing of the responsibility for the entire strain cost to the London Local Authorities via the recharge mechanism. Hence, there could be no incentive for the LCIV to control these types of strain costs.

6.4 There was some frustration amongst stakeholders that hard-won savings on investment manager fees were being compromised by an uncosted LGPS liability. It was felt in some quarters that there is a significant problem with the LGPS recharge and the disincentive that exists as to the management of the cost, especially the pension strain.

7 REMUNERATION REVIEW

7.1 At the request of the 32 London local authority shareholders, the Board undertook a remuneration review in respect of LCIV staff salaries and LGPS pension provision, requiring shareholder views by 16 September 2019 before the Shareholder Committee formally agrees the way forward at its 2 October meeting.

7.2 The Board undertook a review of the LCIV remuneration policy in the 2019/20 MTFS and budget. The remuneration policy review recognised the challenges of recruitment and retention of specialist staff and London Local Authority concerns about the liabilities represented by the pension scheme.

7.3 The Board's view was that change was required and that keeping the LGPS for existing staff and closing it to new hires was the most optimum solution, whilst recognising that maintaining a competitive remuneration policy in respect of new hires could result in higher salaries (or a combination of an attractive defined contribution scheme and higher salaries).

7.4 The Board's view was that the outstanding formal processes of setting up the LGPS scheme begun in 2015 should be fully completed, requiring boroughs to sign the existing guarantee agreement so that the Admission Agreement can be signed. This must be achieved before the LGPS scheme can be closed to new entrants.

7.5 With regard to the remuneration package review, it was recommended that the overall policy needs updating to ensure that it provides a framework which is competitive enough to meet its objectives of recruiting, retaining and developing the talented staff required to deliver LCIV's future plans.

7.6 The Board is currently minded to pursue the option of closing the scheme to new entrants, but would like to hear wider stakeholder views before taking a final decision. Direct formal feedback from each London Local Authority as to their views will be taken before a decision is made at the 2 October meeting. The questions for the consultation are attached at Appendix 3.

7.7 It should be underlined that the options for the pension scheme and the resolution of this issue depend on all shareholders signing the Liability Guarantee Agreement. Signatures on the guarantee by all 32 shareholders is critical regardless of whether the decision is to retain the LGPS, close the scheme to new entrants, or close the scheme to existing members and new hires.

7.8 The LGPS scheme cannot be closed to future LCIV employees until the work to set the scheme up is completed. The Board will also not support moves to implement new arrangements unless this is supported by arrangements to properly establish the scheme and secure a signed admission agreement.

7.9 In the absence of a consensus across London local authorities that the LGPS should be closed to new entrants, or in the absence of 32 signatures on the guarantee, the expectation is that the status quo will continue, meaning that the LGPS will continue to be part of the staff remuneration package except above a threshold of £120,000 which applies to staff joining since December 2017 and those promoted to posts on salaries above this level.

8 LEGAL IMPLICATIONS

8.1 Legal implications are outlined within the report.

9 FINANCE AND RESOURCES IMPLICATIONS

9.1 Finance risks are outlined within the report.

10 RISK MANAGEMENT

10.1 Risks are outlined within the report.

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 – LCIV Shareholder Committee Remuneration Policy Paper
Appendix 2 – LCIV Remuneration Policy Letter from CEO
Appendix 3 – Consultation Questionnaire

London Borough of Hammersmith & Fulham PENSIONS FUND SUB-COMMITTEE 12 September 2019	
INVESTMENT STRATEGY UPDATE	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Decision **Key Decision: No**	
Wards Affected: None	
Accountable Director: Philip Triggs, Director of Treasury & 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 The Pension Fund Investment Strategy will need to be reviewed in line with the actuarial valuation results due in October 2019.

1.2 As such, the Fund's investment consultant, Deloitte, will deliver a short training session on the current portfolio and the key considerations for when the Sub-Committee meetings commence again in November 2019.

2. RECOMMENDATIONS

2.1 The Pensions Sub-Committee is recommended to approve the investment of £20m into the London CIV (LCIV) Buy and Maintain Bond Fund.

2.2 The Pensions Sub-Committee is recommended to note the investment strategy training session and consider some or the key areas ahead of the next meeting in November 2019.

3 INVESTMENT STRATEGY KEY CONSIDERATIONS

3.1 In the short term, the Pension Fund is currently carrying significant excess cash of around £30m. Given that this cash is currently not contributing significantly to overall fund returns, some of it should be invested in a return seeking asset class.

3.2 The Fund is currently underweight in the LCIV Buy and Maintain Bond portfolio, thereby making this asset class the most appropriate place for this cash allocation. The reasons for this are:

- The asset class carries some of the lowest volatility in the portfolio.
- The asset class is likely to remain constant after the investment strategy review, so will not result in significant transaction costs by buying and selling.

3.3 The other considerations for the fund are more medium to long term, but the key themes to consider at the training session:

- How to allocate the current Partners Group multi asset credit (MAC) strategy commitment that is currently repaying investors and will have closed within the next two years.

- Consideration as to whether the current dynamic asset allocation strategy provides sufficient diversification.

- Consideration as to whether the Fund should look for another illiquid strategy to increase income yield.

- Consideration as to what the fixed income strategy should look like post the triennial actuarial valuation.

4 LEGAL IMPLICATIONS

4.1 There are no legal implications.

5 FINANCE AND RESOURCES IMPLICATIONS

5.1 Finance risks are outlined within the report.

6 RISK MANAGEMENT

6.1 Risks are outlined within the report.

<u>LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT</u>

None

LIST OF APPENDICES:

None

London Borough of Hammersmith & Fulham PENSIONS FUND SUB-COMMITTEE 12 September 2019	
TRANSITION FROM LCIV UK EQUITY FUND	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Decision **Key Decision: No**	
Wards Affected: None	
Accountable Director: Philip Triggs, Director of Pensions & Treasury	
Report Author: Philip Triggs, Director of Pensions & Treasury	**Contact Details:** Tel: 0207 641 4136 E-mail: ptriggs@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to update the Pensions Sub-Committee on the progress relating to the transition of assets from the London Collective Investment Vehicle (LCIV) UK Equity Fund into the LGIM MSCI Low Carbon Index Tracker Fund.

2. RECOMMENDATION

2.1 The Pensions Sub-Committee is recommended to approve the appointment of LGIM for the transition of asset process via the transition manager contract contained within the LGPS Norfolk Framework Agreement, subject to the resolving of any outstanding issues with Legal.

3 BACKGROUND

3.1 On 9 July 2019, the Pensions Sub-Committee approved the termination of the LCIV UK Equity Fund (managed by Majedie) and transition the assets into the Legal and General (LGIM) MSCI Low Carbon Index-Tracker Fund.

3.2 Since the resolution, the Tri-Borough Pensions team has approached Legal & General Investment Management (LGIM) to implement the transition on the Pension Fund's behalf.

3.3 In order to ensure that the transition contract is implemented appropriately, the Tri-Borough Team would like to access the LGPS Norfolk Framework for the use of its transition management contract services. This requires a framework agreement to be signed and given a common seal.

3.4 Legal Services advised for the agreement to be reviewed by lawyers before this agreement can be signed. Eversheds Sutherland were instructed to review the document.

4 COSTS OF TRANSITION

4.1 In order to complete this transition, the Pension Fund can either appoint a transition manager or sell the assets to cash and reinvest the cash proceeds into the assets of replacement portfolio. The table below compares the estimated costs involved with each option, assuming an asset valuation of £124.2m:

	Transition Manager	**Cash Redemption**
Estimated Base Cost	£0.432m	£0.808m
Estimated Worst Case Scenario	£0.755m	£1.367m

The Cash Redemption option includes both the transactions costs for the sale and the subsequent purchase costs. Below is a further breakdown of the Cash Redemption option costs:

	Best Case		**Worst Case**	
Estimated Transactions charges for sale	0.30%	£0.373m	0.75%	£0.932m
Estimated Transactions charges for purchase	0.35%	£0.435m	0.35%	£0.435m
Total estimated charges		£0.808m		£1.367m

4.2 As shown in the tables above, it is much more cost effective to carry out the transition through the transition manager than to sell the assets and then reinvest them.

4.3 Typically, the transition manager will expect to carry out most of the transition trades within the same dealing day. However, due to some of the illiquid holdings in the LCIV UK Equity Fund, it may take up to two weeks to completely dispose of them, although these make up a small allocation of the total fund.

4.4 The Cash Redemption option could take a similar timeframe, although this would depend on obtaining the required signatory approvals on time.

However, it is important to note that with this option, the Pension Fund would be out of the market for at least a couple of weeks until the funds are reinvested.

5 TRANSITION MANAGEMENT SERVICES FRAMEWORK

5.1 The National LGPS Transition Management and Implementation Service is a well-established transition framework that has been in place for several years and has been widely used by the LGPS Funds. It is run and managed by Norfolk County Council.

5.2 The London CIV was a founding member of the framework which allows the London Borough of Hammersmith and Fulham Pension Fund to use the framework free of charge.

5.3 However, the Pension Fund is currently not signed up to the framework. In order to join the framework, the fund would have to sign the framework agreement. The framework agreement has been reviewed by Eversheds Sutherland and the inhouse legal team, with some issues still to be resolved.

6 LEGAL IMPLICATIONS

6.1 Awaiting final advice.

7 FINANCE AND RESOURCES IMPLICATIONS

7.1 Finance risks are outlined within the report.

8 RISK MANAGEMENT

8.1 Risks are outlined within the report.

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:

Agenda Item 8

London Borough of Hammersmith & Fulham PENSIONS FUND SUB-COMMITTEE 12 September 2019	hammersmith & fulham
GOVERNANCE OF THE LGPS – GOOD GOVERNANCE REPORT	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Information **Key Decision: No**	
Wards Affected: None	
Accountable Director: Philip Triggs, Director of Treasury & Pensions	
Report Author: Philip Triggs, Director of Pensions & Treasury	**Contact Details:** Tel: 0207 641 4136 E-mail: ptriggs@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to present the LGPS Good Governance Report which was commissioned by the LGPS Scheme Advisory Board (SAB).

2. RECOMMENDATIONS

2.1 The Pensions Sub-Committee is recommended to consider the contents of this report.

3 BACKGROUND

3.1 The LGPS SAB is established under the Public Service Pensions Act 2013 to advise the Secretary of State for the Ministry of Housing, Communities and Local Government on the development of the Local Government Pension Scheme (LGPS). Recently, the SAB has been looking at arrangements and structures of the LGPS funds with a view to identifying if any improvements can be made to the governance process.

3.2 In February 2019, the SAB commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The study considered how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately.

3.3 Fund officers contributed to the consultation survey in support of governance improvements, whilst outlining that the costs of setting up separate entities could be considerable, particularly in the light of recent pooling implementation costs that have also been borne by the Fund.

3.4 It is the SAB's aim that the LGPS will remain appropriately resourced and able to deliver its statutory functions.

3.5 At the end of July 2019 the Hymans Robertson report was published by the SAB.

4 The Good Governance in the LGPS Report.

4.1 The report considered four governance models based on various criteria, including standards, consistency, conflict management, clarity of roles and responsibility, and cost.

4.2 The four models were:

Model 1: Improved Practices

This model would seek to modify the existing LGPS regulation and introduce additional guidance that would improve the independence of the management of the fund.

Model 2: Greater Ringfencing

Model 2 would put a greater distance between the Fund and administering authority when compared with Model 1. The budgeting process, resourcing the Fund and discretionary pay policies would be examples of areas of responsibility that would be considered independently from one another, with independent management structures in place.

Model 3: A Joint Committee

A Joint Committee model would see a separate committee set up that would have responsibility for LGPS functions. The committee would comprise of representatives from both the host administering authority and the non-administering authorities in the Fund.

Model 4: New Local Authority

The introduction of a democratically accountable entity that would be subject to the provisions of the Local Government Act 1972.

5 Next Steps

5.1 The Scheme Advisory Board has invited Hymans Robertson to assist in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out, and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.

5.2 Both working groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The SAB aims for an options report to be ready for consideration in November 2019.

5.3 Any proposals agreed by the SAB following the November 2019 meeting would be subject to further consultation with funds, before being put to MHCLG. These proposals will be presented to the Sub-Committee for comment when published.

6 LEGAL IMPLICATIONS

6.1 Legal implications are outlined within the report.

7 FINANCE AND RESOURCES IMPLICATIONS

7.1 Finance risks are outlined within the report.

8 RISK MANAGEMENT

8.1 Risks are outlined within the report.

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 – Good governance in the LGPS, Hymans Robertson

HYMANS ROBERTSON

Good governance in the LGPS

July 2019

Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

Contents

Authors

Catherine McFadyen
Head of LGPS Actuarial, Benefits and Governance
catherine.mcfadyen@hymans.co.uk

John Wright
Head of Public Sector
john.wright@hymans.co.uk

Ian Colvin
Head of Benefits Consulting
ian.colvin@hymans.co.uk

Steven Law
Actuary
steven.law@hymans.co.uk

Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »

140 respondents to our online survey

one-to-one conversations

153 attendees at interviews and seminars

discussions with CIFPA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this value was outweighed by concern about weakening relationships with councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences. This process enabled us to identify

i. Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS; and

ii. Additional ideas for further strengthening governance within the current regulatory framework.

We have included these in the report.

Conclusions

- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

Key proposals

1. **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.

2. **Critical features of the 'outcomes-based' model** should include:
(a) robust conflict management including clarity on roles and responsibilities for decision-making;
(b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
(c) explanation of policy on employer and scheme member engagement and representation in governance; and
(d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.

3. **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).

4. **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

1. **Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
2. **Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
3. **Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
4. **Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.

Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.
- Three seminars were held with open invitations to collate feedback from larger group.

There are 87 [1] funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

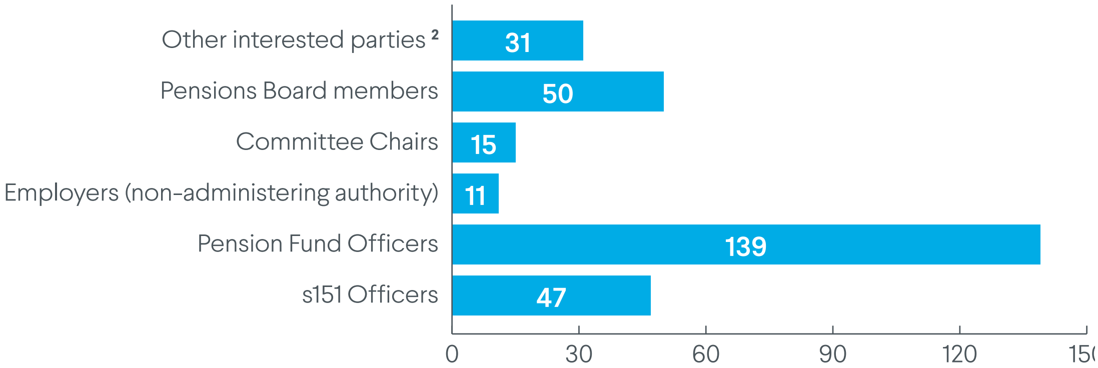
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

			Interaction through	
	Universe	**Responses**	**Survey**	**Interview**
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	**87**	**76**	**140**	**153**

Chart 1: Stakeholders we engaged



1 Excluding admission body funds, passenger transport funds and the environment agency closed fund.

2 Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **Model 1 (Improved practice)** Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- **Model 2 (Greater ringfencing)** Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
- **Model 3 (Joint committee)** Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
- **Model 4 (New Local Authority Body)** An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

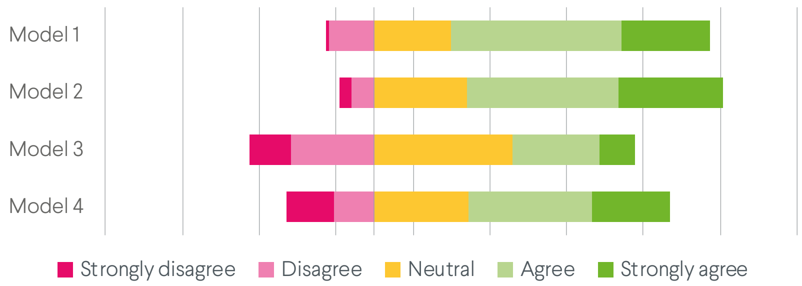
1	**Standards**	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2	**Clarity**	The model delivers clarity of accountability and responsibility for each relevant role.
3	**Conflict**	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4	**Consistency**	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5	**Representation**	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6	**Cost**	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

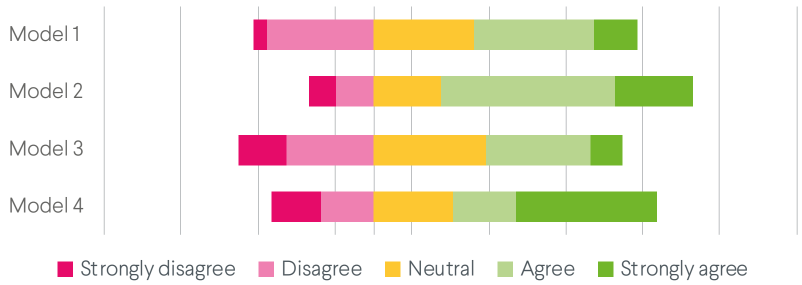
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

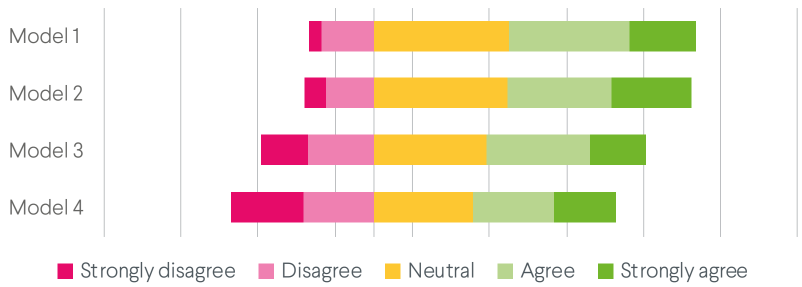
The model enables funds to meet the required standards



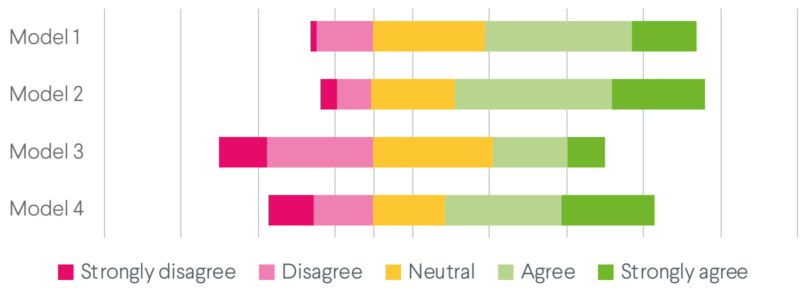
The model minimises conflicts between the pension function and the host local authority



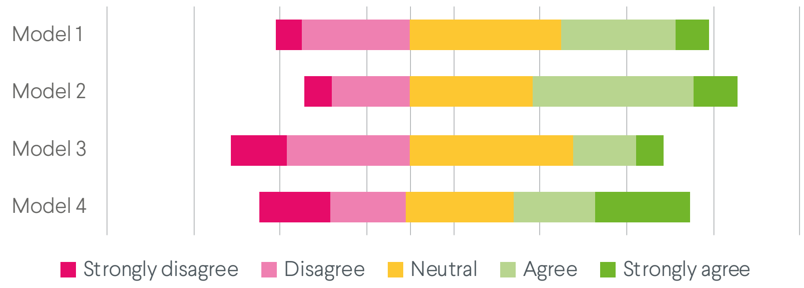
The model allows for appropriate involvement in decision-making for key stakeholder



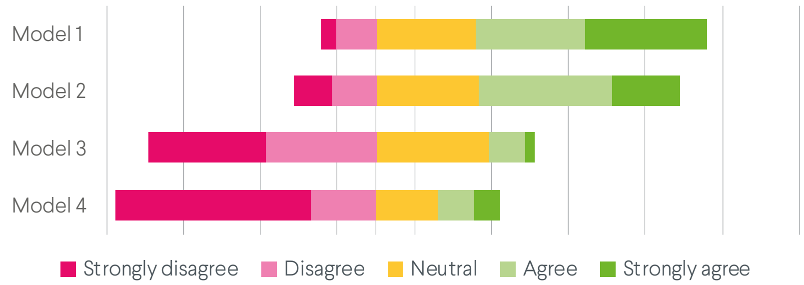
The model delivers clarity of accountability and responsibility for each relevant role



The model minimises dependence on professionalism and relationships to deliver statutory responsibilities

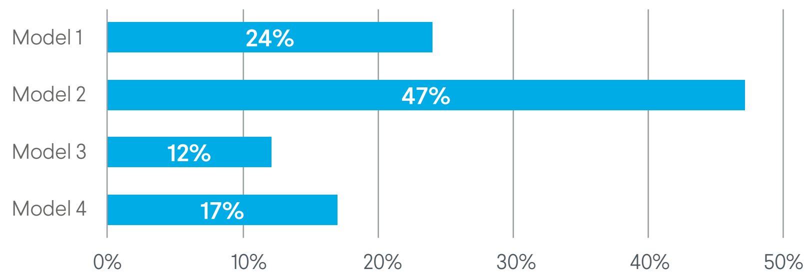


The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



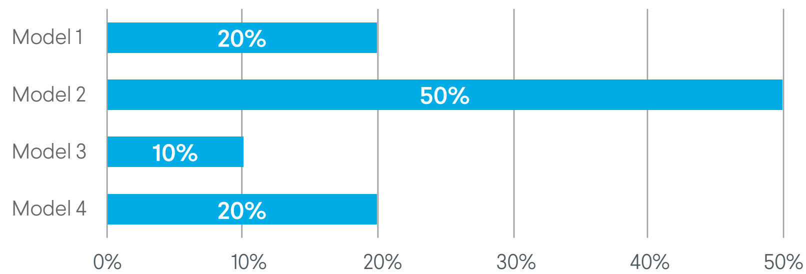
PLSA

Which structural governance model do you prefer from the four models discussed?



Webinar

Which structural governance model do you prefer from the four models discussed?



Additional survey data

In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union

Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.

2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.

3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.

4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.

5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

   "It is a perversion that LPB members require a higher degree of training than elected members."

   Officer, LB

   "[The] biggest issue is stability at elected member level. Too much turnover."

   Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

   "Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc."

   Officer, CC

   "[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't."
   Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.

2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?

3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.

4. Greater clarity around decision-making is a good idea: "Some decision-making conventions are lost in the mists of time."

   Officer, CC

Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.

2. There was strong support for the professionalism of s151 officers and the role they play.

3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

   "My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

   Officer, CC

   "Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

   Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."

Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.

2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

   "No one in the council understands the difference between the 'council' function and the 'pension' function."

   Officer, LB

   "The make-up of panel/committees is not working – too much political interference."

   LPB Chair

   On conflicts:
   "I don't see abuses. The ability is there for there to be abuse but it doesn't happen."

   Officer, CC

   "LGPS is full of conflict, s101 committees are beholden to the council who are mainly focused on council tax-payers."

   TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

   "[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

   s151 CC

   "[s151] role involves tensions, not conflicts. Tension can't always be seen as a bad thing."

   Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority's s151 was 'kept informed'.

   "It hadn't occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good."

   Officer, LB

   "Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF."

   LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

   "[There should be] resourcing such that there is the quality and competence to deliver their statutory duties"

   s151, CC

   One s151 expressed "disbelief that blanket hiring bans and pay policies affected the pensions section. s151's should be flexible enough to understand how to 'spend' resources. If they need to pay differently for pensions to get the right experience/quality."

   s151, CC

   When it comes to budgeting and workplans
   "...the s101 committee decides including requests for extra resource if required."

   Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees. although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

   "Less than 50% of our members are in a union."

   s151, CC

   "Representation is key – members must have a say"

   TU

   "Other employers reps and member reps should have voting rights [on the committee]. That's right and should happen."

   Chair of Committee, CC

   "We are warm towards the idea of an independent advisor/trustee who sits on committees."

   s151, CC

   "We want to improve things for our members in terms of governance, transparency and representation."

   TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund's governance arrangements.

   "I welcome the involvement of the Pension Board it adds value, second opinion."

   Chair Committee, CC

   One respondent believed that joint committee and local pension boards "give scheme members and other employers a voice and avoids duplication."

   s151, CC

   "Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control."

   Chair of LPB

3. There were a range of practices in how funds engaged with employers:

   "As s151 of a non-admin authority, I didn't feel engaged in the pension fund, it was something that was dictated to me every few years."

   s151 speaking of their time in a non administering authority

   "Employer liaison is tricky as your participating employers often don't see it as a priority."

   s151, CC

5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	**'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance structure.
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management including clarity on roles and responsibilities for decision making. b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	**Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	**Update relevant guidance and better sign-posting.**

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	**'Outcomes-based' approach** to LGPS governance rather than a prescribed governance structure.	We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure. Further, we do not believe it is appropriate to impose a 'one size fits all' approach.	i. SAB should consult on: • Desirable features and attributes of LGPS governance arrangements; • The outcomes governance arrangements should be expected to deliver; and • How each administering authority might evidence that its own governance model displays the required attributes. ii. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management. b. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance.	The detailed specification of the desirable features and expected outcomes of an 'outcomes-based' model are beyond the scope of this project and should be determined in a second stage of work and through consultation. However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).
2a	**Robust conflict management.** Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Published conflicts policy. • Protocols for setting and managing budgets. • Schemes of delegation. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.	Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts. Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.** This will require a transparent approach to setting and managing budgets. Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.	The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers. At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions. It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems. This aim must be supported by transparent processes for setting appropriate budgets. Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff. Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.
2c	**Explain policy on employer and member engagement and representation in governance.** At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.	Most administering authorities have non-administering authority employer and scheme member representatives. Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations). In some cases, scheme member representatives have voting rights. ››	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		Many survey respondents support greater encouragement to include scheme member reps on s101 committees. However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.	
2d	**Regular independent review of governance** to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered. Guidance should not prescribe the approach but could set out acceptable methods which may include: i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process.	It is important that any 'outcomes-based' approach is policed. Self-assessment is insufficient. Independent review is required for a more objective assessment. We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
3	**Enhanced training requirements** for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.	**s151s:** Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts. **s101 committees:** Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those tor s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.	i. CIPFA to develop a CPD module for s151 practitioners in the LGPS. ii. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	**Update relevant guidance and provide better sign-posting.** It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations. As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)	The main guidance relevant to governance includes: i. CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and ii. CLG's statutory guidance on governance of governance compliance statements (2008). Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling. Both must be updated.	i. CIPFA to review and update guidance for s151s in respect of LGPS governance. ii. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration. iii. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. iv. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	**Separate s151 for pension fund.**	• A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	**Compulsory benchmarking.**	• Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	**Legal separation of pension fund accounts.**	• Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts form administering authority/council.
4	**Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.**	• Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	**Removing s151 from decisions around admin budgeting due to conflicts.**	• s151 has statutory responsibility.
6	**Merger of funds to facilitate different governance models.**	• Weakened link to local democratic accountability. • Outside of the scope of the project.

Table 4: Suggested follow up work beyond the scope of this report

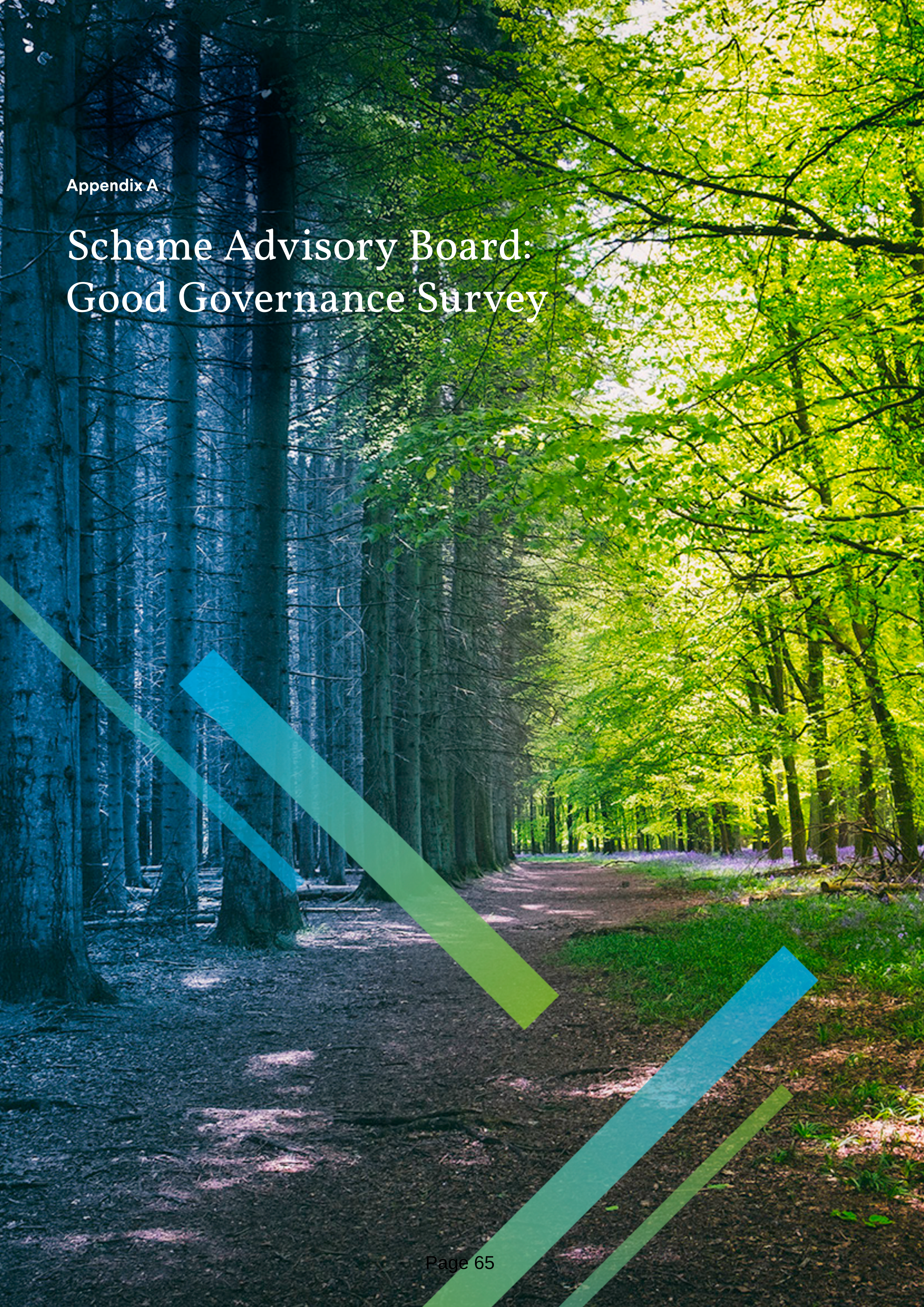
	Suggested follow up work	Why
1	**SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.**	• Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	**CIPFA and MHCLG to update existing guidance.**	• Existing guidance is out of date.
3	**Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).**	• Statutory responsibilities take precedence. • Currently unclear.
4	**SAB to consider a 'Good Administration' review.**	• Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	**SAB to consider a review of the role of Pension Boards in LGPS.**	• Very mixed reports on the role and success in working with Pension Boards in the LGPS.

Table 5: 'Outcomes-based' model - concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	**Robust conflict management.**	• Conflicts policy. • Scheme of delegation or decision matrix setting out who makes what decisions. • Transparent process for approving budgets. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.**	• Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. • Process for setting administration budget. • Policies in respect of recruitment and market supplements to attract and retain staff.
3	**Explain policy on employer and member engagement and representation in governance.**	• Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. • Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. • Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	**Regular independent assessment of governance arrangements.**	State method e.g. • Internal or external audit assessment; or • Scrutiny by Local Pension Board; or • External expert / consultant; or • Peer review process. Describe scope and approach e.g. • Reviewing policies, meeting minutes. • Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey



The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.

The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.

Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 – Greater ring fencing of the LGPS within existing structures: Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body – an alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).

Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid though the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.

Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.

Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Appendix B

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator

London Borough of Hammersmith & Fulham **PENSIONS FUND SUB-COMMITTEE** **12 September 2019**	
GLOBAL CUSTODIAN CONTRACT EXTENSION	
Report of the Strategic Director, Finance and Governance	
Open Report	
Classification – For Decision **Key Decision: No**	
Wards Affected: None	
Accountable Director: Philip Triggs, Director of Treasury & 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 The Pension Fund custody contract with Northern Trust is due to expire on the 30 September 2019.

1.2 The current contract, approved at the Audit, Pensions and Standards Committee on 30 June 2014, has scope for an automatic two-year extension on the current terms.

1.3 Due to the changing nature of the Local Government Pension Scheme (LGPS), Northern Trust remains the only realistic appointment for London Local Authority LGPS pension schemes. This arises from most London Local Authority assets being pooled with the London CIV (LCIV), who employ Northern Trust, and therefore other providers cannot be competitive in the market.

1.4 Northern Trust have offered to apply the LCIV discount rate, saving £8k per annum.

2. RECOMMENDATION

2.1 The Pensions Sub-Committee is recommended to approve the appointment of the global custodian, Northern Trust, to the LBHF Pension Fund for an additional two years up to the period end 30 September 2021 with an estimated annual cost of £32k per annum.

3 BACKGROUND

3.1 On 30 June 2014, the Audit, Pensions and Standards Committee agreed to award the contract to Northern Trust for a period of five years with a two-year extension, with an original estimated cost of £71,402 per annum.

3.2 It was Central Government's view in 2015 that LGPS Pension Funds should be pooling their assets in order to achieve savings on investment manager and other operational fees through economies of scale. As such, LBHF has 71% of its assets pooled with LCIV. These assets are held in pooled funds via LCIV's global custodian, Northern Trust.

3.3 Traditionally, the global custodian business generated profits through a variety of different ways, but one of the major sources of revenue was holding direct segregated assets which result in higher transactional fee income and other residual benefits such as stock lending income.

3.4 With WCC and LBHF's assets moving to the LCIV model, the incentive for global custodians to take on LGPS business has been significantly reduced as Northern Trust currently holds most of the assets. Market intelligence suggests that, in order to make up for the lost revenue, other global custodians are forced to make significant flat fee increases to existing mandates (with one provider raising its fee to circa £120,000 per annum for similar sized funds). Other providers are not bidding at all for new business outside of their pool.

4 FUTURE OF CUSTODY SERVICES

4.1 The future direction of travel for the LGPS is increased emphasis on pooling and for this to be enshrined in regulation and government statutory guidance. Indeed, other London Local Authorities, which are likely to achieve significantly higher levels of pooling with no segregated assets, are moving away from having any global custodian at all.

4.2 The LGPS Global Custody Services Framework expired in April 2019 but call-off contracts let under the framework can run till 30 September 2024 insofar as the option to extend had been included in the original contract award.

4.3 To this end, it is recommended that the incumbent global custodian, Northern Trust, be reappointed to the LBHF Pension Fund for an additional two years up to the period end 30 September 2021 with an estimated annual cost of £32k per annum.

5 LEGAL IMPLICATIONS

5.1 Legal implications are outlined within the report.

6 FINANCE AND RESOURCES IMPLICATIONS

6.1 Finance risks are outlined within the report.

7 RISK MANAGEMENT

7.1 Risks are outlined within the report.

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None

LIST OF APPENDICES:
None