

**LONDON BOROUGH OF**  
**REDBRIDGE**  
**PENSION FUND**  
**ANNUAL REPORT**  
**2017/18**

# CONTENTS

<b>Executive Overview</b>	<b>Page 1 - 2</b>
<b>Management Structure</b>	<b>Page 3 - 4</b>
<b>Scheme Features</b>	<b>Page 5 - 6</b>
<b>Membership Summary</b>	<b>Page 7 - 10</b>
<b>Governance Structure</b>	<b>Page 11 - 19</b>
<b>Financial Summary</b>	<b>Page 20 - 24</b>
<b>Actuarial Statement</b>	<b>Page 25 - 26</b>
<b>Independent Auditors' Report</b>	<b>Page 27</b>
<b>Statement of Responsibilities</b>	<b>Page 28</b>
<b>Statement of Accounts</b>	<b>Page 29 - 43</b>
<b>Publications</b>	<b>Page 44- 45</b>
<b>Contact Details</b>	<b>Page 46</b>
<b>Appendix 1- Pension Administration Strategy</b>	<b>Page 47 -55</b>
<b>Appendix 2 – Communication Policy Statement</b>	<b>Page 56 - 68</b>
<b>Appendix 3 – Governance Compliance Statement</b>	<b>Page 69 - 77</b>
<b>Appendix 4 – Investment Strategy Statement</b>	<b>Page 78 - 101</b>
<b>Appendix 5 – Funding Strategy Statement</b>	<b>Page 102 - 137</b>

## EXECUTIVE OVERVIEW

Welcome to the Pension Fund Annual Report for 2017/18.



**Councillor Norman**  
**Pension Fund Committee Chair**

Following a governance review within the Council, the Pension Fund Committee was established in May 2017, replacing the former Pension Fund Investment Panel. As a result, as well as the existing investment matters, the Committee also became responsible for administration matters which added a new dimension to our meetings.

The Pension Fund Committee was pleased to note that despite all the volatility within the investment markets the value of the Fund increased by 4.2% over the year. Whilst the Fund as a whole out-performed its benchmark, individual investment portfolios had mixed fortunes and the Committee continues to monitor this situation. It was particularly good to see that the Fund's investment in the Emerging Market has delivered a return over the year of 14.2%. It was also especially pleasing to note that the newly appointed fund manager, Baillie Gifford delivered a return of 13.1% also outperforming its benchmark.

To ensure that the Fund's investments continue to meet our funding objectives and seek to provide contribution rate stability, the Fund's investment advisers Mercers, monitor the Investment Strategy as well as the individual Fund Managers. At the 2016 Valuation, the Actuary calculated that the Fund was 80% funded. The fund has put in place arrangements to achieve a fully funded position over time.

In recognition of the Government's requirements for Councils to pool their investments the Committee took the decision to transfer the index-tracking equity mandate from State Street Global Advisors to Legal & General Investment Management Ltd. This was completed in January 2018. By undertaking this transfer, 65% of the Fund's investments is now pooled via the London Collective Investment Vehicle (LCIV). Going forward, the Fund should benefit from the reduction in management fees.

One of the main changes that affected the financial markets and could have affected the Pension Fund in 2017/18 was the implementation of the Markets in Financial Instruments Directive II (MiFID II). Following training sessions and subsequent discussions the Pension Fund Committee agreed to opt for Professional Status thereby enabling the Fund to have access to a wide range of investment products. The Fund's applications were submitted and approved by all relevant parties. As well as the MiFID training the Pension Fund Committee has also attended a number of training sessions to ensure that our knowledge and skills are kept up to date with the changes within the investment markets as well as developing our skills with regards to administration regulations.

Responsible Investing has been a matter of debate within the Local Government Pension

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Scheme, with some funds considering the adoption exclusion policies. The Committee have always recognised that responsible investing can impact on the performance of an investment. Therefore, the committee have sought to appoint managers with a strong commitment to governance. In addition, the Pension Fund are members of the Local Authority Pension Fund Forum. Their aim is to work with investment companies, shareholders and fund managers to influence change towards responsible investing whilst also enhancing the return for investors.

More details of the activities of the Committee can be found on pages 11 and 12.

# MANAGEMENT STRUCTURE

The London Borough of Redbridge Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute and is kept under review by the Ministry for Housing, Communities and Local Government (MHCLG).

The London Borough of Redbridge is the Administering Authority for the London Borough of Redbridge Pension Fund. The Council has set up the Pension Fund Committee to oversee the management of the Fund. The Pension Fund Committee consists of five Councillors who are appointed by the Council on an annual basis.

In accordance with the Council's Constitution, and the Local Government Pension Scheme Regulations, the responsibility for the management and investment of the Pension Fund is delegated to the Pension Fund Committee. During 2017/18 the Members of the Committee were:

Cllr. E. Norman (Chair)  
Cllr. R. Hatfull (Vice Chair)  
Cllr. J. O'Shea  
Cllr. P. Merry  
Cllr. T. McLaren

## **Other Professional Advisers and service providers**

### **Actuary**

Hymans Robertson

### **Investment Consultant**

Mercer Ltd.

### **Investment Managers**

Baillie Gifford (managed via London CIV)

Newton Investment Management Ltd (managed via the London CIV).

Schroder Investment Management

Aberdeen Standard Investment Management

State Street Global Advisors (terminated in January 2018)

Legal & General Investment Management Ltd (appointed in January 2018 via the London CIV)

### **AVC Providers**

Clerical Medical

Equitable Life

Standard Life

### **Custodian**

State Street

### **Auditors**

KPMG LLP

### **Performance Measurement**

State Street Global Services

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**Solicitors**

In House

**Scheme Administrators**

In House

**Pension Fund Bankers**

National Westminster Bank plc

**Shareholder Services**

Institutional Protection Services

## SCHEME FEATURES

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits to all eligible employees and their dependents. Eligible employees are mainly local government staff, except teachers who have separate pension arrangements, and a number of other bodies as permitted by Local Government Pension Scheme Regulations.

From 1 April 2014, the scheme changed from a final salary basis to a Career Average Revalued Earnings basis.

**Table 1 – LGPS Features to 31 March 2018**

Eligibility	Permanent Employees
<b>Member Contribution</b>	<ul style="list-style-type: none"> <li>• Ranging from 5.5% - 12.5% depending on salary.</li> </ul>
<b>Normal Retirement Age</b>	<ul style="list-style-type: none"> <li>• Equal to individual member's State Pension.</li> </ul>
<b>Early Retirement</b>	<ul style="list-style-type: none"> <li>• Immediate payment of unreduced benefits on efficiency/redundancy grounds from the age of 55;</li> <li>• Voluntary retirement from age 55 with reductions for early payment;</li> <li>• Flexible retirement with employer consent from the age of 55.</li> </ul>
<b>Ill Health Retirement</b>	<ul style="list-style-type: none"> <li>• A three-tier ill-health arrangement has been introduced that pays benefits to members based on the member's prospect of returning to gainful employment.</li> <li>• Tier 1 – Immediate payment with service enhanced to Normal Pension Age;</li> <li>• Tier 2 – Immediate payment with service enhancements of 25% of service to Normal Pension Age;</li> <li>• Tier 3 – Temporary payment of pension for up to 3 years.</li> </ul>
<b>Pensions</b>	<ul style="list-style-type: none"> <li>• 1/49<sup>th</sup> of salary for each year of membership from 01/04/14;</li> <li>• Service between 01/04/08 and 31/03/14 will be calculated at 1/60<sup>th</sup>;</li> <li>• Service prior to this date will be calculated at 1/80<sup>th</sup> plus lump sum.</li> </ul>
<b>Tax Free Lump Sum</b>	<ul style="list-style-type: none"> <li>• Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.</li> </ul>
<b>Death in Service</b>	<ul style="list-style-type: none"> <li>• Lump sum of three times salary at date of death.</li> </ul>

<b>Death Benefits after retirement</b>	<ul style="list-style-type: none"> <li>• Death on pension lump sum of ten times pension less pension already paid</li> </ul>
<b>Dependents Benefits</b>	<ul style="list-style-type: none"> <li>• Long-term pension benefits payable to the member's spouse, civil partner, or nominated co-habiting partner.</li> <li>• Long-term children's pension.</li> </ul>
<b>Period in which members can cancel membership and reclaim contributions</b>	<ul style="list-style-type: none"> <li>• Members can terminate their membership of the pension scheme and reclaim the contributions paid up to 2 years after joining.</li> </ul>

The employee rate bandings are based on actual pensionable pay including non-contractual overtime. The table below provides details of the bandings which have been effective since 1 April 2014.

<b>Pay Bands</b>	<b>Contribution Rate</b>
<b>Up to £13,500</b>	5.5%
<b>£13,501 - £21,000</b>	5.8%
<b>£21,001 - £34,000</b>	6.5%
<b>£34,001 - £43,000</b>	6.8%
<b>£43,001 - £60,000</b>	8.5%
<b>£60,001 - 85,000</b>	9.9%
<b>£85,001 - £100,000</b>	10.5%
<b>£100,001 - £150,000</b>	11.4%
<b>More than £150,000</b>	12.5%



## MEMBERSHIP SUMMARY

The London Borough of Redbridge Pension Fund had twenty-three contributing employers in the Fund including the Council itself. Employers are classified as either scheduled (who have automatic right to join the fund) or admitted bodies (who are admitted at the Council's discretion) as defined by Regulations.

The table below outlines the membership profile as at 31 March 2018 for all employers in the Fund as well as their status.

**Table 2 – Profile of Employers in the Fund at 31 March 2018**

Employer	Status	Active	Deferred	Undecideds	Pensioner	Total	%
LB Redbridge	Scheduled	4,477	4,513	2,073	4,858	15,921	89.57%
Aldborough E-Act School	Scheduled	30	3	6	-	39	0.22%
Atam Academy	Scheduled	5	-	-	-	5	0.03%
Avanti Court Primary School	Scheduled	27	1	4	-	32	0.18%
Beacon Academy Trust	Scheduled	161	18	75	21	275	1.55%
Chadwell Heath Academy	Scheduled	40	29	8	12	89	0.50%
Isaac Newton Academy	Scheduled	68	3	9	1	81	0.46%
Little Heath School	Scheduled	73	21	44	13	151	0.85%
Loxford Academy	Scheduled	94	-	31	7	132	0.74%
Mayfield School	Scheduled	83	60	10	17	170	0.96%
Palmer Academy	Scheduled	53	14	3	8	78	0.44%
Redbridge College	Scheduled	-	169	8	51	228	1.28%
St. Aidan's Academy	Scheduled	36	4	12	3	55	0.31%
Winston Way Academy	Scheduled	33	-	-	-	33	0.19%
Ursuline Academy	Scheduled	16	43	1	12	72	0.41%
Caterlink	Admitted	9	-	1	-	10	0.06%
Dizzy Ducks Nursery	Admitted	1	1	5	-	7	0.04%
Town & Country	Admitted	10	-	-	-	10	0.06%
Blenheim	Admitted	2	2	-	1	5	0.03%
Lewis & Graves	Admitted	11	0	2	1	14	0.08%
Imagine Independence	Admitted	3	1	-	1	5	0.03%
Morrisons	Admitted	32	11	-	31	74	0.42%
Vision	Admitted	139	49	31	69	288	1.62%
		5,403	4,942	2,323	5,106	17,774	100%

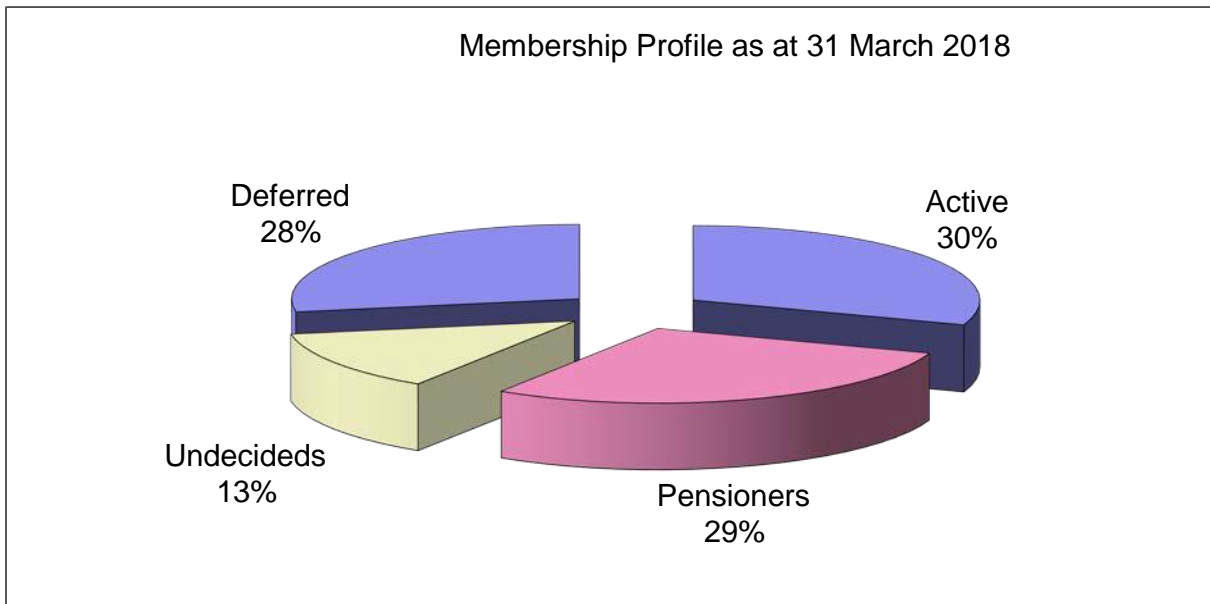
A deferred member is a former employee who has decided not to transfer their accrued benefits to an alternative pension scheme and they will therefore receive pension benefit upon normal retirement.

Developments to the employer membership during 2017/18 were as follows:

- Chestnut Nursery and Barney Bears Nursery ceased to be employers in the Pension Fund as they no longer had any active members;
- Redbridge College is merging with New City College and will cease to be an employer in the Redbridge Fund. This will be completed in 2018/19;
- Blenheim CPD will cease to be an employer in the scheme following the termination of their contract at the end of March 2018. The cessation process will be completed in 2018/19.

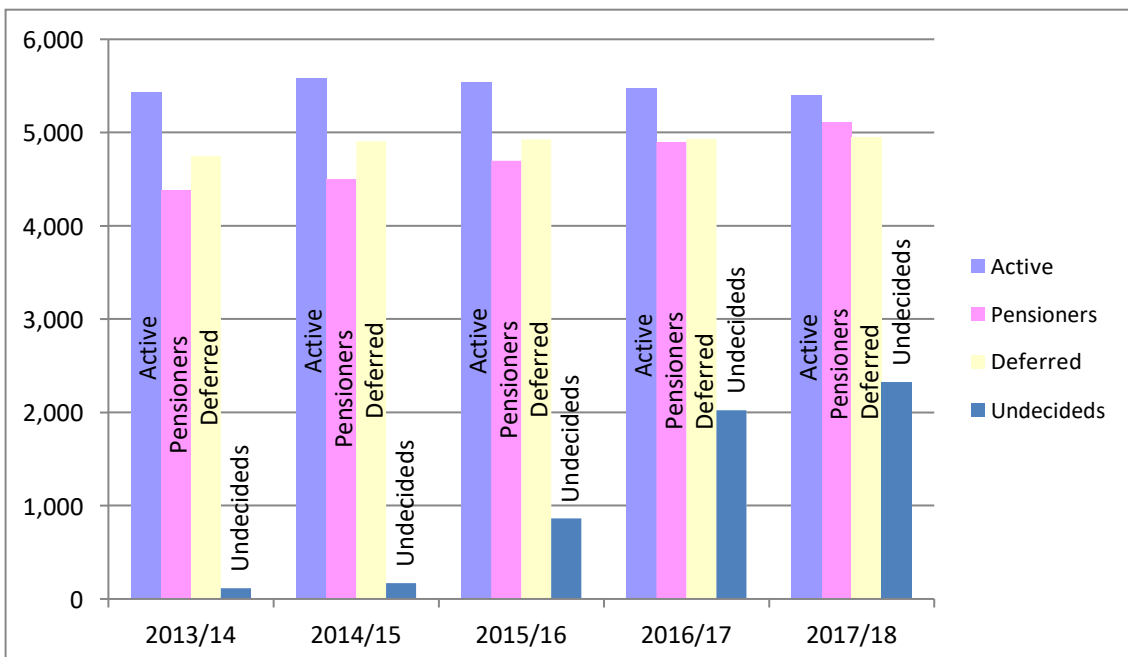
Chart 1 below shows the breakdown of the total membership by the classification of the employer.

**Chart 1 – Membership classification by employer type as at 31 March 2018**



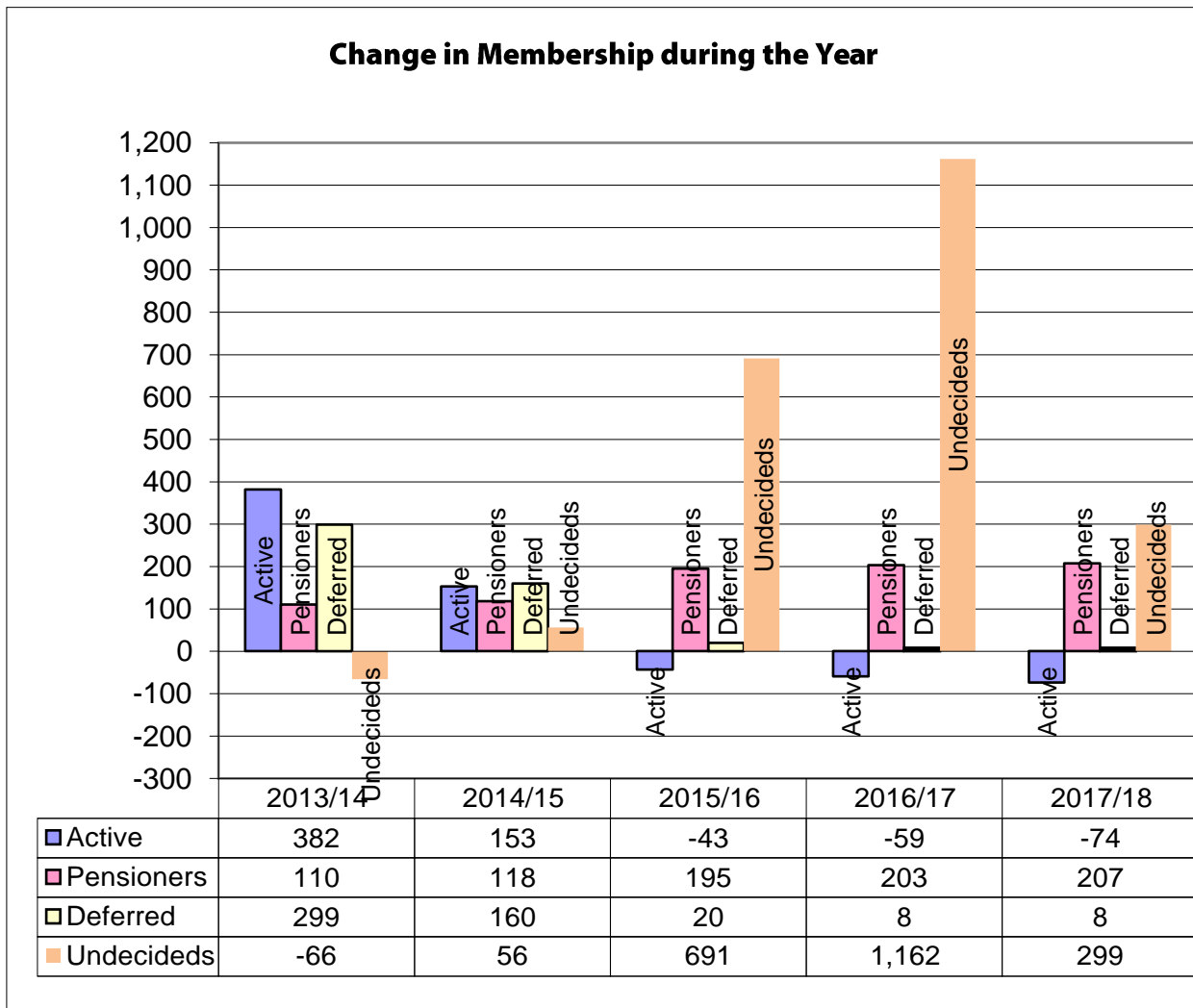
The Fund membership has increased over the last five years from 14,670 to 17,774 - an increase of 21.2%. The membership profile over the same period is set out in Chart 2 below.

**Chart 2 – Membership Composition**



The Fund has become more mature over the years due to the increasing number of pensioner and deferred members as a percentage of the whole Fund membership.

To demonstrate this change in profile, the Chart 3 shows the change in membership numbers each year for the past five years.



**Chart 3 – Changes in Membership Profile**

### Auto-Enrolment

Under the terms of the Occupational and Personal Pension Schemes (Automatic –Enrolment) Regulations 2010 (as amended), employers must automatically enrol eligible employees into a work-place pension scheme from a staging date set by the employer size. For Redbridge this date was 1 March 2013 and all new employees since then have been automatically enrolled into the pension scheme unless they specifically request not to be in the scheme – “opt-out”.

On 12 February 2013 Cabinet decided that Redbridge would use the Transitional Provisions in the legislation to defer the application of auto enrolment for existing employees to 1 October 2017. Using this option, the Council did not automatically enrol existing eligible employees before 1 March 2013 until 1 October 2017. Thereafter the Council is now required to automatically enrol all employees who have been subject to the transitional provisions

from 1 October 2017. Employees will then need to opt-out if they do not wish to remain in the scheme.

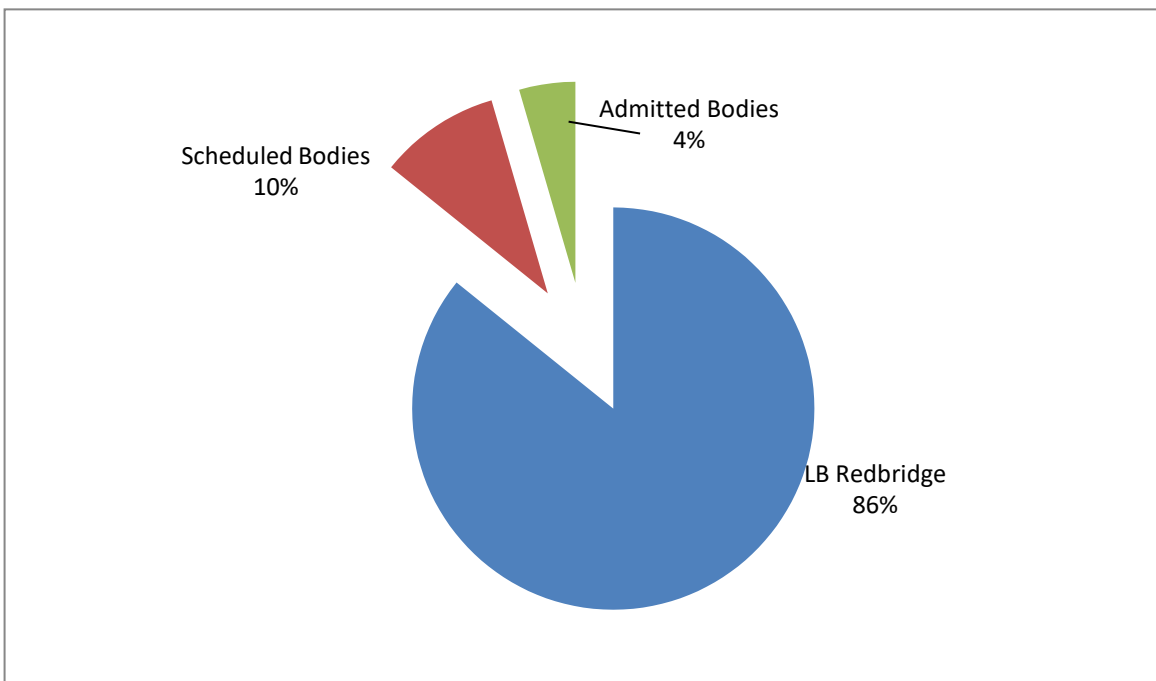
Under the legislation eligible employees who have opted out of the scheme must be automatically re-enrolled every three years.

### Contributions to the Fund

The Council monitors the receipt of pension contributions from the various employers in the Scheme to ensure compliance with the regulations. During 2017/18 £33.056m of contributions were received by the due date which equates to 99.21%. The remaining 0.79% was due to issues arising from new admission agreements. The Council invoked a charge of £215.60 to one of the employer in the scheme for late payment of contributions.

Chart 4 shows the breakdown of the employee and employer contributions by the classification of employer.

**Chart 4 – Employee & Employer Contributions classified by employer type**



# GOVERNANCE STRUCTURE

## Investment Powers and Duties:

The Local Government Pension Scheme Regulations require the London Borough of Redbridge, as the administering authority, to invest any monies not immediately required to pay pensions and other benefits. This legislation also governs the way investments are made and controlled.

## Pension Fund Committee:

The London Borough of Redbridge Pension Fund Committee, comprising of five councillors, meet at least four times a year to monitor the performance of the fund and the various fund managers, to approve the annual business plan and the annual report, to review and approve the Investment Strategy Statement and to review the investment strategy. The Pension Fund Committee also receives the actuarial valuation of the Fund and keeps the governance and administration arrangements under review. As part of the requirements to ensure that Councillors' knowledge is kept up to date, the Pension Fund Committee receives a presentation from either one of the fund managers on the current position of the portfolio or from its advisers on other topical issues. The Members of the Committee have full voting rights.

Pension Fund Committee Members as at 31 March 2018



**Councillor Hatfull**

**Labour**  
(Vice Chair)

**Councillor Merry**

**Labour**

**Councillor Norman**

**Labour**  
(chair)

**Councillor O'Shea**

**Conservative**

**Councillor McLaren**

**Conservative**

**Substitute Members:** Councillor Canal (Conservative) and Councillor Sharpe (Conservative).

**Meetings** - The Pension Fund Committee held four meetings during 2017/18 for Pension Fund matters. Councillors Hatfull, Merry and Norman attended all the meetings. Councillor McLaren attended three meetings. Councillor Canal substituted for Councillor O'Shea at three meetings and Councillor Sharp substituted at the other meeting.

**Conflicts of Interest** – The Council has in place a “Members’ Code of Conduct” which Councillors are required to comply with. At each Committee Meeting, Members are required to disclose any declarable pecuniary or personal interest in an agenda item and if such a declaration is made, then the Member is not permitted to take part in the debate on that specific agenda item.

**Training** – The Committee’s Annual Business Plan includes a training programme to ensure that Members continue to develop their knowledge and skills to ensure compliance with best practice.

The Committee participated in a series of training events which coincided with the Committee Meetings. The topics of the training sessions covered during 2017/18 were as follows:

- The implications of regulatory changes – Markets in Financial Instruments Directive (MiFID II);
- Cash Flow Management;
- Investing in Property;
- The implications for investors from political changes to the Emerging Markets;
- Looking for security and return from bond market investments.

In addition, Members of the Committee and the Local Pension Board have participated in in-house training as well as attending external seminars.

### **Governance Compliance Statement (GCS)**

The regulations require the Council, as the Administering Authority for the Pension Fund, to publish details of their governance and stewardship arrangements. The statement must include the extent of the Authority’s compliance against a set of principles issued in guidance from the Ministry of Housing, Communities and Local Government (MHCLG), and reasons for not doing so. The GCS is attached as Appendix 3

### **Local Pension Board**

The Local Pension Board, comprising of two employee representatives, two employer representatives and an independent Chair, has held four meetings this year and during these meetings they have reviewed various documents including the Pension Fund Annual Report & Accounts, reports on regulatory changes which included MiFID II which could have had significant implications to the pension fund, reports on administration matters including details of proposed changes to Exit Payments. and the Internal Controls Guidance.

Representatives of the Local Pension Board have attended several Pension Fund Committee meetings. Any recommendations made by the Pension Fund Committee can be reviewed by the Local Pension Board to ensure that the Fund is managed in the compliance with regulations and adopts best practice where possible.

A report on the work of the Local Pension Board is published as a separate document. A link to the 2016-17 Report is provided below:

<http://moderngov.redbridge.gov.uk/ieListDocuments.aspx?CId=742&MId=7544&Ver=4>

### **Pensions Administration Function**

The Pension Admin Function are responsible for dealing with the payment of pensions and benefits, whilst also ensuring the integrity of data submitted by external organisations. This in turn contributes to the collection of funds and other such income into the Pension Fund.

The Pension administration function is undertaken by a team of 5.76 full time equivalents, who are responsible for communicating with scheme members, pensioners and employers in the scheme. However, this year, the team have been affected by the departure of the Pensions Team Leader in June 2017 and the Pensions Manager in February 2018.

To mitigate this the Council have been using a set of blended resources comprising of fixed term contracts and the commissioning of technical expertise and knowledge to support the team.

Tasks undertaken by the team include:

- Processing Retirements;
- Issuing Statutory Notifications;
- Responding to pension enquiries;
- Providing Retirement estimates;
- Finalising Cash Equivalent Transfer Values;
- Issuing Annual Benefit Statements.

During the financial year, the administration team have continued to support the changing landscape within the Council and continued to review and implement system improvements.

### **Work Programmes Delivered**

- The issuing of Annual Benefit Statements benefits by the statutory deadline of 31 August 2017.
- The exit of Redbridge College to the LPFA – London Pension Fund Authority
- The take up of the Altair member self-service facility was successfully rolled out to Council employees and wider members of the Scheme. The main benefits of this include the ability for members to view their personal data and run pension estimates for themselves, thereby reducing the number of these types of queries being raised with the administration team.
- Work has also been completed on Phase 1 of the review of Guaranteed Minimum Pensions (GMP) records and Phase 2 is near completion.

A project management approach underpins regular workload reviews and the progression of critical projects. This means that budget resources are regularly tracked to ensure a cost-effective service that also has the ability to flex resources as and when required. This is particularly pertinent as the Team continue to deal with competing priorities and resource levels.

A sample of some of work of the Pension Administration function and numbers completed this year is provided in the table overleaf:

**Table 3 – Pension Administration cases and performance**

Case Type	Numbers Completed 2017/18
Change of Details	455
New Members	486
Deferred Members	149
Pensioners and Retirements	575
Estimates	233
Member Self Service	955
Deaths	315
Annual Benefits Statements Issued	9,189
Refunds	122
HMRC Enquiries	40
Complaints	6

The Council monitors the performance of the administration team against a number of Performance Indications on a monthly basis. Details of the performance for the year ending 31 March 2018 are set out in the table below:

**Table 4 – Performance Indicators**

	Performance Indicator	Target	Average 2017/18
PEN01	New Member - sending out confirmation that they have been admitted to the pension scheme within 20 working days of the end of the month the employee joined or the date of notification by the employer, whichever is the later.	70%	74.15%
PEN02	Deferred Members Calculating – deferred pension benefits and notifying members of their rights upon termination of pensionable employment within 20 working days of the month of leaving or notification by the employer whichever is the later.	60%	29.58%
PEN03	Active and Deferred Members Retiring – issue of retirement benefits within 30 days of the member having retired from the scheme or notification by the employer and receipt of the appropriate forms from the Member, whichever is the later.	82%	73.22%
PEN04	Issue of Statutory Notices – sending out a statutory notification following a change to pensionable status within 20 working days of the end of the month in which the change takes effect or notification by the employer whichever is the later.	68%	50.90%



## **Resource Planning**

A critical review was undertaken to identify the amount of resources needed for business as usual activities, requirements for business-critical projects and developing technological solutions to modernise the service.

## **Internal Dispute Resolution Procedure**

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established.

## **Pensions Administration Strategy and Communications Policy Statement**

In accordance with the regulations, the Council has prepared a Pensions Administration Strategy (PAS) and a Communications Policy Statement (CPS).

The PAS is managed by the Pensions Administration function and sets out:

- procedures for liaison and communication with Scheme employers;
- Statutory Requirements;
- Performance Reports, levels of Performance and circumstances for giving written notice of unsatisfactory performance; and
- Charging Schedules.

A copy of the PAS is attached as Appendix 1

The CPS provides a written statement on how the Council as the Administering Authority will communicate with:

- Members;
- Representatives of Members;
- Prospective Members; and
- Scheme Employers.

A copy of the CPS is attached as Appendix 2

## **Investment Administration**

The Corporate Director of Resources monitors the pension fund investments and manager performance and prepares reports in relation to this activity for the Pension Fund Committee. Senior Officers within the Council also meet with the fund managers periodically to review the performance of the portfolios and consider other topical issues.

The Corporate Director of Resources, in consultation with the Head of Finance, is responsible for ensuring that any surplus cash is invested to obtain the best possible return within the agreed investment strategy.

## **Investment Management**

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund monies on their behalf,

subject to being satisfied with their experience, competence, risk management controls and appropriate arrangements for monitoring performance. The Regulations governing the Pension Fund require the Fund to publish an Investment Strategy Statement (ISS) setting out the main parameters and responsibilities for the management of the Fund. The Regulations also require the ISS to include details of the Fund's approach to pooling its investments. The statement also includes details of the proposed asset allocation, restrictions on investment types, the type of investment management used, the investment risk and performance monitoring. It also sets out the Fund's approach to responsible investment and corporate governance issues. The ISS is attached at Appendix 4.

The Fund's investment strategy is reviewed by the Pension Fund Committee periodically to ensure that it remains fit for purpose. The strategic asset allocation and mandates for the fund managers are set out below in Table 5.

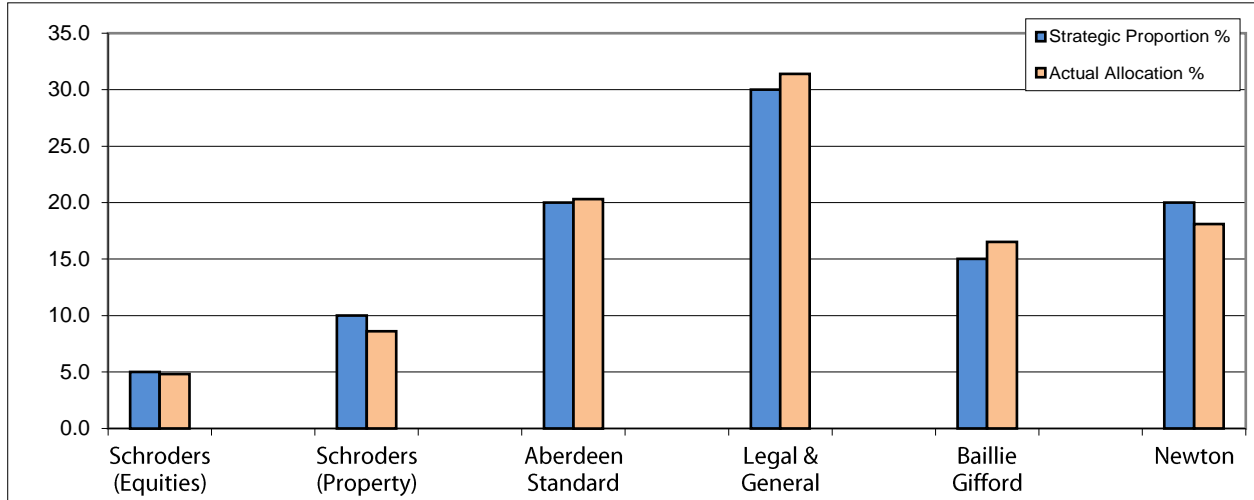
**Table 5 Strategic asset allocation**

Manager	Strategic Proportion %	Mandate	Target
<b>Direct Investment Mandates</b>			
Schroders (Equities)	5.0	Emerging Markets Equities	To out-perform the MSCI Emerging Markets index by 3%
Schroders (Property)	10.0	Property	Outperform the IPD All Balanced Property Fund Index by 1%
Aberdeen Standard	20.0	Bonds	Composite - 50% FTSE UK Index Linked Gilts/ 3% above 3mth LIBOR
<b>TOTAL</b>	<b>35.0</b>		
<b>Investments through the London CIV</b>			
Legal & General	30.0	Global Equities	Track the various market indices
Baillie Gifford	15.0	Global Equities	To out-perform the MSCI AC World Index by 3%
Newton	20.0	Unconstrained Global	Absolute return of 4% above LIBOR
<b>TOTAL</b>	<b>65.0</b>		

-MSCI – Morgan Stanley Capital International

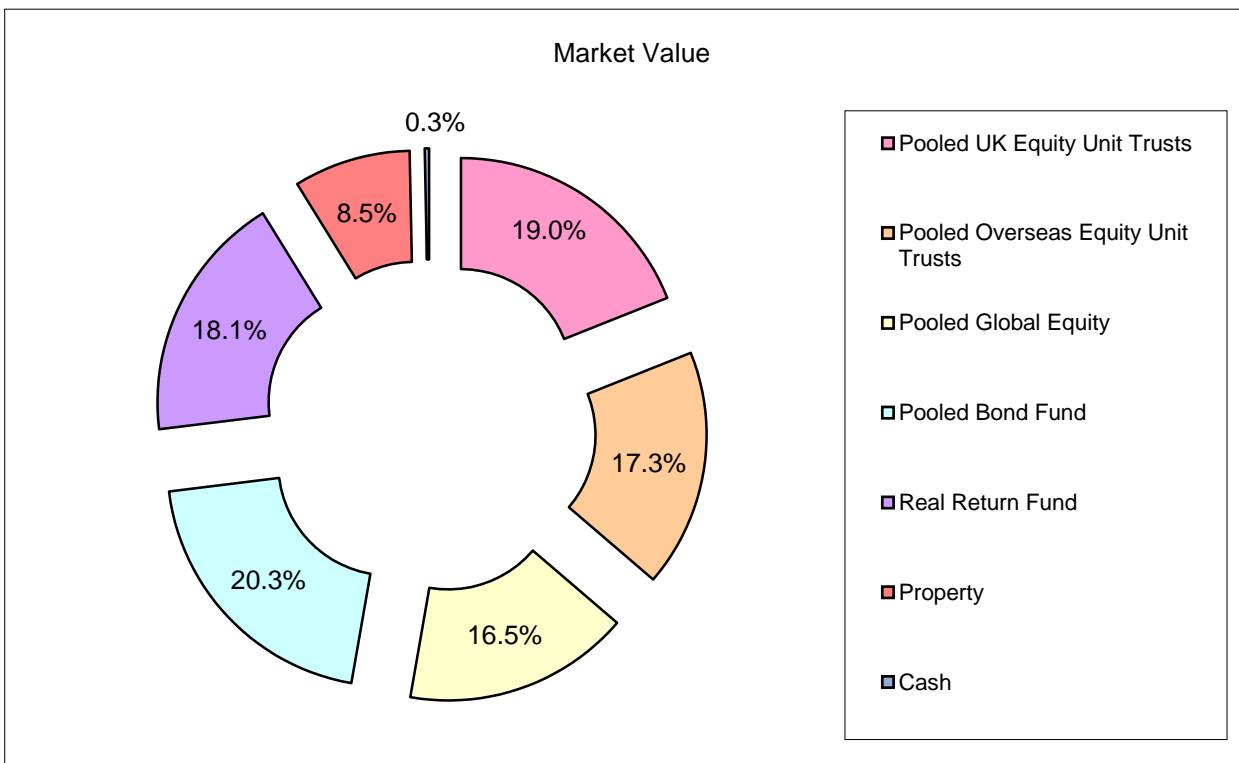
In addition to these mandates, the Council invests residual cash balances that are held on behalf of the Pension Fund, prior to being used to pay pension benefits. The investment strategy incorporates a 5% flexibility variance between the strategic allocation and the actual allocation to allow for fluctuations in market conditions. Chart 5 overleaf compares the strategic allocation with the actual allocation at year end.

**Chart 5 - compares the Strategic Asset Allocation with the Actual Allocation**



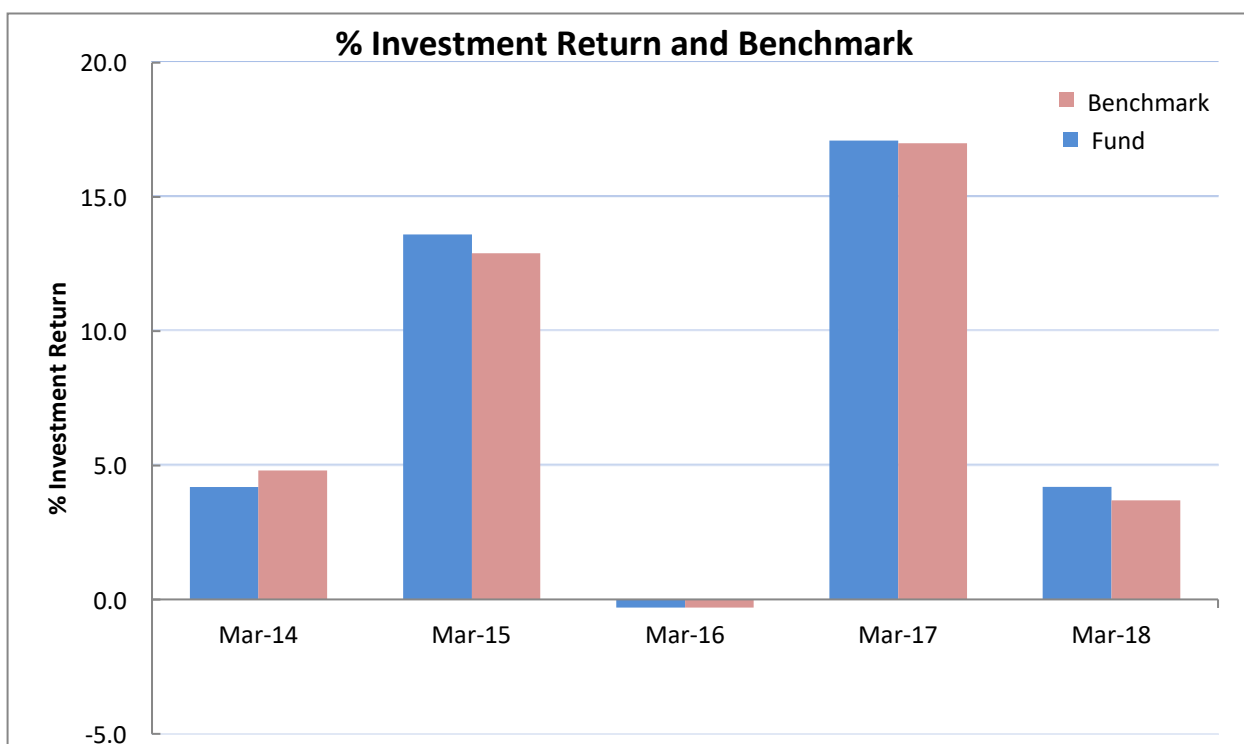
The overall strategic asset allocation is 80% in equity type assets and 20% in bond type assets as set out in the ISS. Chart 6 shows how the Pension Fund has been invested between the various types of investment mandate.

**Chart 6 – The Distribution of Assets by Market Value**



Performance of the Fund against the Funds strategic benchmarks is measured by the State Street Analytics Company. Chart 7 provides details of the Fund’s annual performance returns for the past five years.

**Chart 7 – Annual investment return of the Fund relative to the combined benchmarks.**



The Fund’s aim is to balance the minimisation of risk with the achievement of the Fund’s investment objectives.

### **Corporate Governance and Responsible Investing**

The Fund recognises its responsibility to ensure the highest standards of governance and promoting corporate governance within the companies in which it invests. The Fund believes that the potential for stronger investment returns are more likely to be achieved from businesses that operate to high standards of corporate governance along with environmental and social best practice.

The Fund does not impose an exclusion policy against specific companies or sectors. The Fund is of the view that exclusion deprives investors of the leverage to influence companies to change, and that by doing so, could potentially reduce holdings in companies that are building significant portfolios or renewable energy assets, or in companies with strong energy transition plans.

The Pension Fund has instructed its Fund Managers to vote its shares in accordance with the Fund Manager’s Voting Policies as these policies are compliant with the UK Stewardship Code. The Fund Managers provide quarterly reports of the voting activity undertaken together with any engagement undertaken with companies. These reports are provided to the Members of the Committee. The policy on corporate governance is reviewed by the Committee periodically.

The Fund is a member of the Local Authority Pension Fund (LAPF) which seeks to work with shareholders, fund managers and investment companies to influence changes that will benefit investors, investment companies and potentially the wider community.

The Redbridge Pension Fund is also a member of Pensions & Lifetime Savings Association (PLSA formerly known as NAPF) for other pension matters.

## **Risk Management**

The Fund's primary long-term risk is that its assets are not sufficient to meet its liabilities. The investment objectives have been set with the aim of maximising investment returns over the longer term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled without increasing the risk to the Council.

The investment strategy incorporates flexibility of up to 5% between asset classes to reflect normal market volatility. However when market conditions are highly volatile, the rebalancing of the Fund in-line with the strategy may be suspended to avoid exposure to greater risk from market conditions.

The Pension Fund's Investment Advisers, Mercer, undertake regular investigations of the Investment Managers and provide reports to the Council of their findings. Mercer also provide news alerts on issues that may be of interest regarding the Fund's Investment Managers. Clarification with the Investment Managers would be sought on any concerns raised.

The Pension Fund has also appointed an independent company, Institutional Protection Service, who provide the following services:

- Reports on corporate fraud or mismanagement where it affects shareholder interest.
- Assesses any potential claim by shareholders due to the misconduct by companies and identify options for recovering this loss.

The Council has access to copies of the Fund Managers' audited internal control reports and also has access to web-site alerts from professional pension publications.

A Risk Register for the Pension Fund has been developed and is included within the both the ISS (Appendix 4) and Funding Strategy Statement (Appendix 5). This sets out the key risks including demographic, regulatory and governance. The actuary reports on these risks at each triennial valuation or more frequently if required.

## FINANCIAL SUMMARY

The Council, as the administering authority, is responsible for ensuring that sufficient funds will be available to meet current and future benefit payments. Investment Managers, Members of the Pension Fund Committee, Council Officers, the Actuary and Independent Investment Specialists work together to deliver optimal returns whilst also balancing the risk to the Fund and maintaining affordable employers' contribution rates.

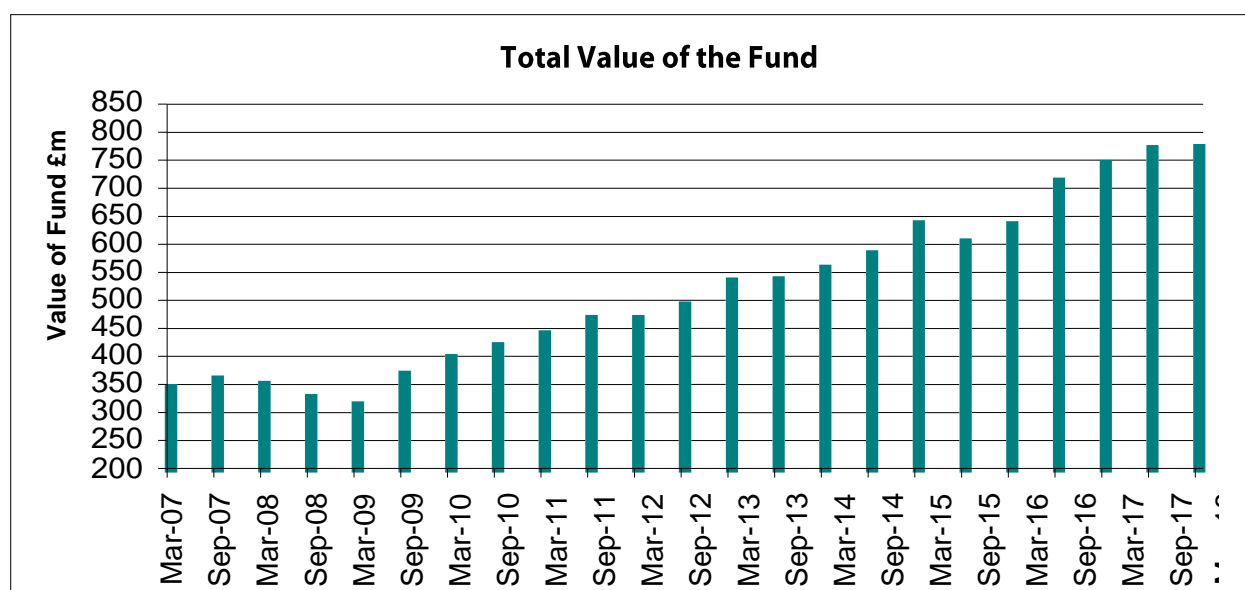
**Table 6 – Annual Income & Expenditure Summary and Fund Value since 2013/14**

Financial Summary	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
<b>Asset Market Value at 1 April</b>	<b>534.879</b>	<b>556.597</b>	<b>636.282</b>	<b>634.074</b>	<b>743.423</b>
Income	33.572	35.539	36.834	35.945	38.270
Expenditure inc Management expenses	(32.982)	(31.273)	(35.307)	(35.734)	(38.904)
<b>Net Cash Flow</b>	<b>0.590</b>	<b>4.266</b>	<b>1.527</b>	<b>0.211</b>	<b>(0.634)</b>
Investment Income	12.432	12.893	0.212	2.397	7.540
Net Realised/Unrealised Profit and (Loss)	8.696	62.526	(12.947)	106.741	21.795
<b>Asset Market Value at 31 March</b>	<b>556,597</b>	<b>636,282</b>	<b>634,074</b>	<b>743,423</b>	<b>772,124</b>

The negative cashflow position in 2017/18 was mainly as a result of increased pension payments and investment expenses. Going forward, grants payable are expected to reduce and contributions increase as a result of auto enrolment. Therefore the 2018/19 forecast is for a modest return to positive cashflow.

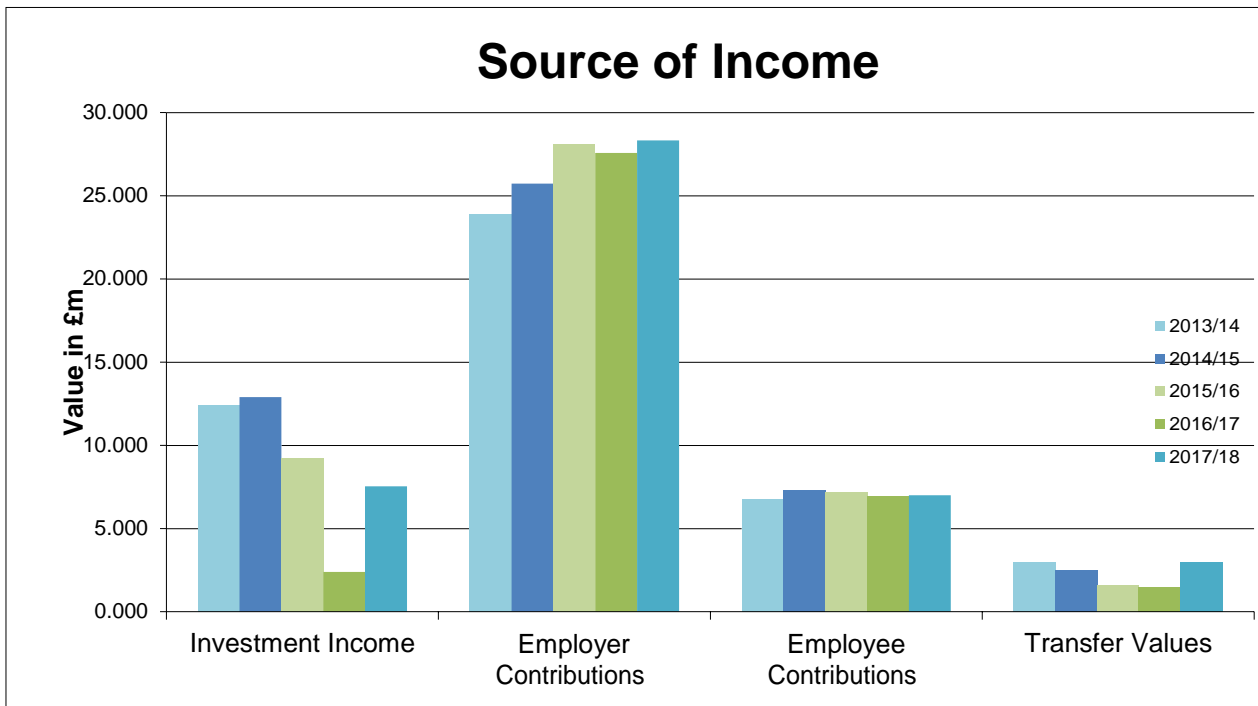
Chart 8 shows the value of the Fund since March 2007 and demonstrates the market volatility of the markets over recent years. The chart also shows that since the severe market falls in 2008/09, the Fund has more than doubled in value.

**Chart 8 - Change in the value of the Fund 2007/18**



The Fund receives income from various sources. The main source of income received relates to employee and employer contributions. The employee contribution rate is set by Regulations, whereas the employer contribution rate is calculated by the Fund's Actuary and is set as a result of the triennial valuation. The last valuation was undertaken as at 31 March 2016 and set the employers' contribution rate for three years from 1 April 2017. Chart 9 provides details of the various income streams.

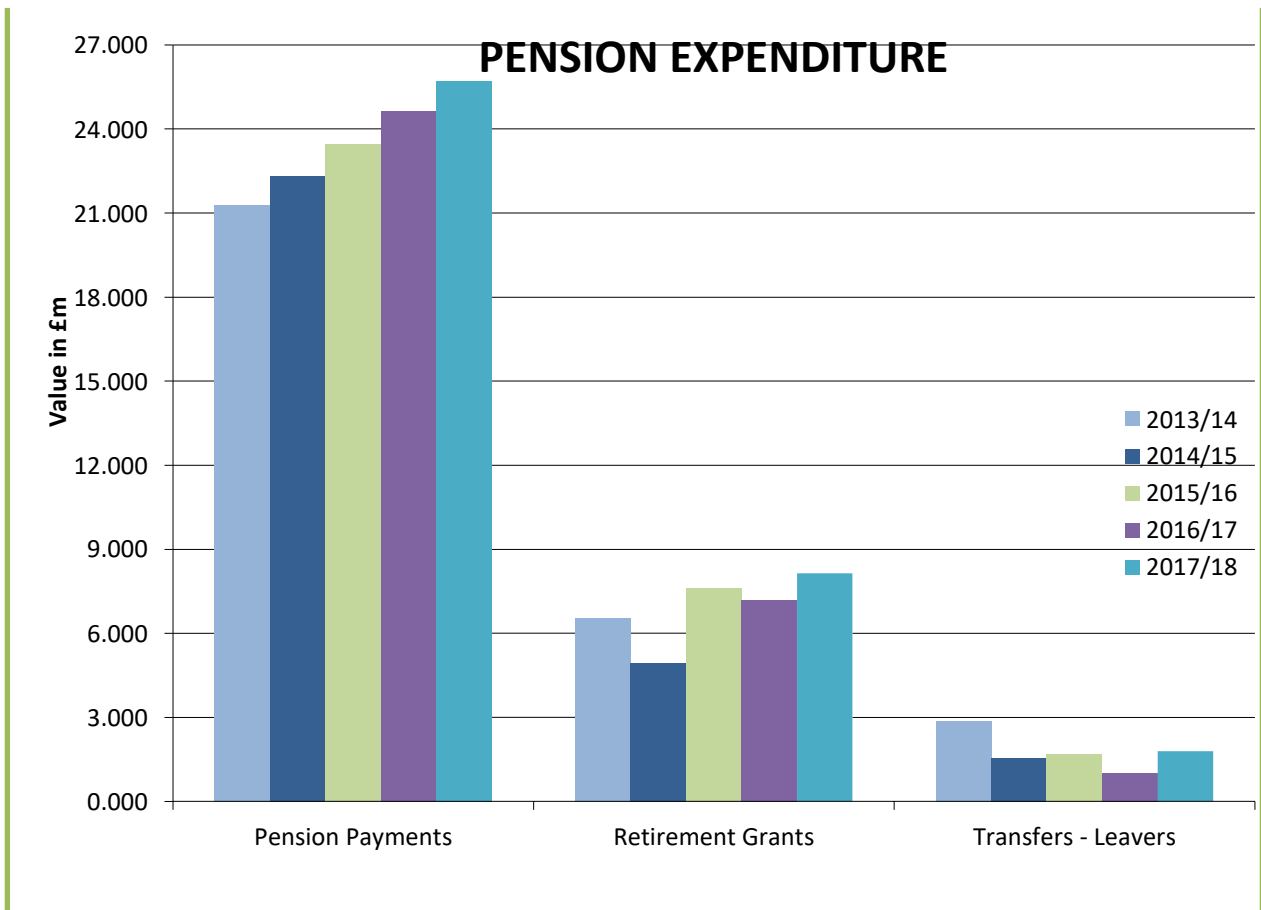
**Chart 9 – Source of Income**



The amount of investment income received has reduced in recent years. This is due to the change in the investment strategy that has resulted in investment in pooled unit trusts. With this style of investment product, the income generated is re-invested and is therefore reflected in the value of the pooled unit trust.

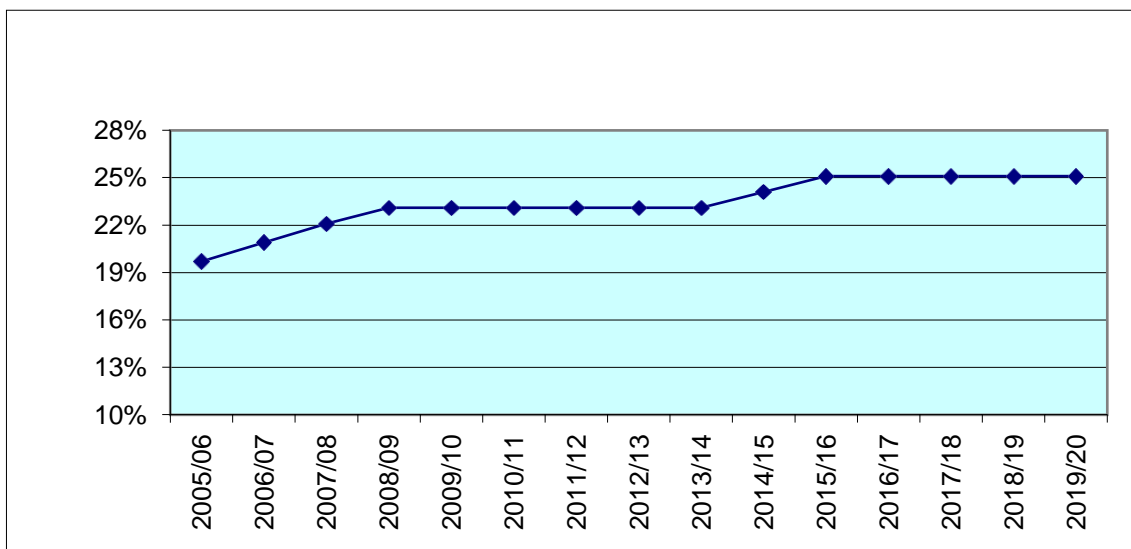
In 2017/18 pensions were increased by 3% in-line with inflation. As a result of this increase the average pension paid rose by £4 per annum. The value of the average pension is now £5,034 per year. The increase in pension expenditure is shown in Chart 10.

**Chart 10 – Pension Expenditure**



As well as looking to ensure that employer contribution rates remain affordable, the Council also seeks to avoid volatility in the rates. Chart 11 shows the movement of the contribution rates over the past twelve years and for the next two years as set by the Fund’s Actuary:

**Chart 11 – London Borough of Redbridge Contribution Rates**





## Comparison of Budget Forecast and Actual Income and Expenditure

The Council monitors the Pension Fund's cash flow on an annual basis, comparing trends on income and expenditure against previous years to ensure that the Fund remains cash positive, effectively having sufficient income to meet its liabilities. Table 7 sets out actual income and expenditure along with the estimated budget for 2018/19.

**Table 7 – Income and Expenditure 2017/18**

	<b>2017/18 Budget £m</b>	<b>2017/18 Actual £m</b>	<b>Variance £m</b>	<b>Comment</b>
<b>INCOME</b>				
Employee and Employer contributions	33.000	33.319	0.319	Increase in membership
Early Retirements Strain Payments	2.000	1.993	(0.007)	
Transfers In	1.800	2.958	1.158	Higher level of transfers than forecast.
<b>TOTAL INCOME</b>	<b>36.800</b>	<b>38.270</b>	<b>1.470</b>	
<b>EXPENDITURE</b>				
Pensions	(23.835)	(25.714)	(1.879)	Increased pensioners due to restructure of workforce
Retirement Grants	(7.000)	(7.030)	(0.030)	
Death Grants	(0.800)	(1.085)	(0.285)	
Other inc Transfers Out	(1.850)	(1.872)	(0.022)	
<b>TOTAL EXPENDITURE</b>	<b>(33.485)</b>	<b>(35.701)</b>	<b>(2.216)</b>	

The Council's Revenue and Benefits department provides the administration service for the Pension Fund and recharges the Pension Fund for this service. In addition, the Pension Fund incurs costs as part of delivering administrative services. Table 8 sets out details of these additional costs together with the original budget estimate.

**Table 8 – Cost of Pension Administration**

	<b>2017/18 Actual £m</b>	<b>2017/18 Budget £m</b>	<b>Variance £m</b>	<b>Comment</b>
HR Recharge	(0.415)	(0.415)	-	
Computer System	(0.187)	(0.180)	(0.007)	
Actuarial Services	(0.061)	(0.050)	(0.011)	This was partially due to additional work requested.
Training	(0.002)	(0.002)	-	
Audit	(0.021)	(0.021)	-	

## Table 9 –Local Pension Board

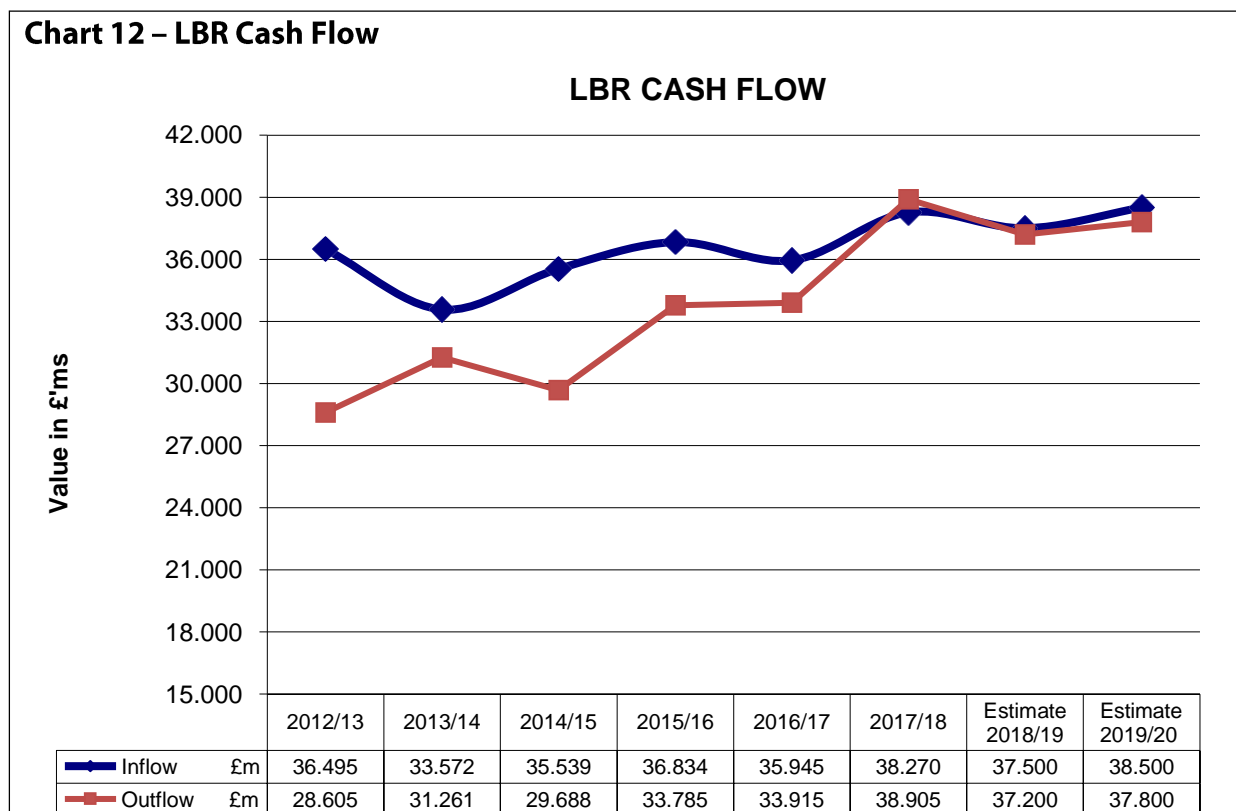
As part of the overall cash flow, the Local Pension Board has been allocated a budget to enable it to achieve its objectives. This included an allowance for training and development as well as the facility to obtain independent professional advice.

	Actual £m	Budget £m	Variance £m	Comment
Local Pension Board	(0.005)	(0.010)	0.005	Underspend against provision for training and use of professional advice.

## Cash Flow

The cash-flow for the pension fund has been affected by changes to the level of contributions received as well as the pension payments being made. Chart 12 demonstrates the change in the level of income over expenditure in recent years. It is anticipated that income will be marginally higher than expenditure thereby maintaining a cash-positive position at least for the next few years.

The cash flow for 2018/19 predicts that contributions will increase because of auto-enrolment and the recruitment of permanent staff. However, the combination of increasing numbers of pensions and the additional work to computer systems to deal with regulation changes are likely to increase the cost of administering the fund.



# London Borough of Redbridge Pension Fund (“the Fund”) Actuarial Statement for 2017/18

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

## Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 17 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 17 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £634 million, were sufficient to meet 80% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £155 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund’s funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.1%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.2 years
Future Pensioners*	23.9 years	26.3 years

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay FFA  
For and on behalf of Hymans Robertson LLP  
8 May 2018

Hymans Robertson LLP  
20 Waterloo Street, Glasgow, G2 6DB

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

## **Opinion**

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 3.

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Redbridge for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

## **Respective responsibilities of the Corporate Director of Resources and the auditor**

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities *the Corporate Director of Resources* is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Redbridge, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

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

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

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

*Chartered Accountants*

15 Canada Square  
Canary Wharf  
London E14 5GL

July 2018

## STATEMENT OF RESPONSIBILITIES

The London Borough of Redbridge as Administering Authority of the London Borough of Redbridge Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Corporate Director of Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

In the Council's Constitution, the following responsibilities have been delegated to the Corporate Director of Resources:

- the duty to maintain and manage a Pension Fund in accordance with the Local Government Pension Scheme Regulations. This power shall be exercised in accordance with the recommendations of the Pension Fund Committee.
- to ensure that the Council's accounting records are kept in accordance with the appropriate accounting standards and mandatory guidance and that the Statement of Accounts is prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards.
- the statutory duty to arrange for a triennial Actuarial Valuation of the Fund; to obtain an Actuary Certificate and to send a copy to the Minister; and to supply a copy of the Pension Fund audited accounts to admitted employing authorities.
- the duty to comply with and to exercise and perform any powers and duties under the various Pension Acts and the Superannuation Act 1972 which fall to be exercised or performed by the Council by virtue of its being an employer (powers and duties relating to supervision of pension schemes).

Statement of the Corporate Director of Resources

I certify that the Accounts set out on pages 29 to 43 have been prepared in accordance with proper practices and present a true and fair view of the transactions of the London Borough of Redbridge Pension Fund during the year ended 31 March 2018 and financial position of the Fund at the date of its assets and liabilities, other than liabilities to pay pensions and benefits after the year end.

Maria G Christofi, BA (Hons), FCCA, CPFA  
Corporate Director of Resources  
23 July 2018

## Pension Fund Account for the Year Ended 31 March 2018

2016/17 £000		Notes	2017/18 £000
	<b>Dealings with members, employers and other directly involved in the Fund.</b>		
34,508	Contributions receivable	6	35,312
1,438	Transfers in	7	2,958
<b>35,946</b>			<b>38,270</b>
	<i>Less:</i>		
(31,839)	Benefits payable	8	(33,851)
(1,055)	Leavers	9	(1,850)
<b>(32,894)</b>			<b>(35,701)</b>
<b>3,052</b>	<b>Net additions from dealings with members</b>		<b>2,569</b>
<b>(2,841)</b>	<b>Management Expenses</b>	0	<b>(3,203)</b>
	<b>Returns on Investments</b>		
2,397	Investment income	17	7,540
-	Irrecoverable withholding tax	17	-
106,741	Change in market value of investments	12(b)	21,795
<b>109,138</b>	<b>Net returns on Investments</b>		<b>29,335</b>
<b>109,349</b>	<b>Net increase in the Fund during theyear</b>		<b>28,701</b>
<b>634,074</b>	<b>Net Assets of the scheme at 1 April 2017</b>		<b>743,423</b>
<b>743,423</b>	<b>Net Assets of the scheme at 31 March 2018</b>		<b>772,124</b>

### Net Assets Statement as at 31 March 2018

2016/17 £000		Notes	2017/18 £000
743,257	Investment Assets	12	772,014
-	Investment Liabilities	12	-
<b>743,257</b>			<b>772,014</b>
500	Current Assets	16	501
(334)	Current Liabilities	16	(391)
<b>743,423</b>	<b>Net Assets of the Scheme at 31 March 2018</b>		<b>772,124</b>

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial present value of promised retirement benefits is disclosed at Note 20.

I certify that the Pension Fund Account and Net Assets Statement present a true and fair view of the income and expenditure in 2017/18 and the Pension Fund's financial position as at 31 March 2018.

**Maria G Christofi, BA (Hons), FCCA, CPFA**  
**Corporate Director of Resources**  
**23 July 2018**

# Notes to the Pension Fund Account

## 1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered in accordance with the Local Government Pension Scheme (LGPS) Regulations by the London Borough of Redbridge. The scheme is a contributory defined benefit pension scheme that provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to various scheduled and admitted bodies.

The scheduled bodies in the scheme as at 31 March 2018 were: Redbridge College, Chadwell Heath Academy, Mayfield School, Ilford Ursuline Academy, Little Heath School, Palmer Academy, Isaac Newton Academy, Aldborough Free School, Loxford Academy, St Aidan's Academy, Beacon Multi Academy (formerly Beal Multi Academy), Atam Academy, Winston Way Academy, Astrum Academy and Strive4 Academy. Redbridge College is in the process of merging with another college and will therefore cease to be an employer in the Redbridge Fund.

The admitted bodies in the scheme as at 31 March 2018 were: Morrison Facility Management Limited, Vision-Redbridge Culture & Leisure, Imagine Independence Ltd, Dizzy Ducks Nursery, Lewis & Graves, Caterlink Ltd, Town & Country Cleaners Ltd and Blenheim CPD.

As at 31 March 2018 the membership of the scheme was as follows:

<b>Active Members</b>	<b>As at 31 March 2017</b>	<b>As at 31 March 2018</b>
Redbridge Council	4,551	4,477
Scheduled Bodies	694	719
Admitted Bodies	232	207
<b>TOTAL</b>	<b>5,477</b>	<b>5,403</b>

<b>Pensioners</b>	<b>As at 31 March 2017</b>	<b>As at 31 March 2018</b>
Redbridge Council	4,674	4,858
Scheduled Bodies	135	145
Admitted Bodies	90	103
<b>TOTAL</b>	<b>4,899</b>	<b>5,106</b>

<b>Deferred Members</b>	<b>As at 31 March 2017</b>	<b>As at 31 March 2018</b>
Redbridge Council	6,292	6,579
Scheduled Bodies	565	576
Admitted Bodies	101	110
<b>TOTAL</b>	<b>6,958</b>	<b>7,265</b>

The Fund is financed by contributions as well as interest, dividends and profits from realised investments. The contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set on triennial actuarial funding valuations. The funding policy is to ensure that over time the assets held by the Fund are adequate to meet future pension scheme liabilities.

Five Councillors are appointed annually by the Council to the Pension Fund Committee, which has the role of dealing with the management of the Pension Fund's investments in accordance with regulations laid down in statute and the Fund's Investment Strategy Statement.

In line with the provisions of the Public Service Pension Act 2013 the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. The Board Members are independent of the Pension Fund Committee.

The administration of the scheme is managed in-house by the London Borough of Redbridge.



The Pension Fund's financial statements provide a stewardship report on the Fund, together with a statement of the assets position at the financial year-end.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The accounting requirement under International Accounting Standard (IAS) 26 is disclosed at Note 20.

## 3. Summary of Significant Accounting Policies

### Fund account – revenue recognition

- A) **Contribution Income** – Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.
- Employer's augmentation and pension strain contributions are accounted for in the period that the liability arises. Any amount due in year but unpaid is treated as a current financial asset.
- B) **Transfers to and from other schemes** – Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.
- C) **Investment Income** –
- (i) **Interest Income** – Interest income is recognised in the Fund account as it accrues.
  - (ii) **Dividend Income** - Dividends have been accounted for on an accrual basis. Investment income on overseas investments has been converted into sterling at the rate of exchange on settlement date. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
  - (iii) **Distributions from pooled equity funds** – Pooled investment vehicles are accumulation funds and as such the change in market value includes income, net of withholding tax which is re-invested in the fund.
  - (iv) **Distributions from pooled property funds** – Income distributions from the pooled property fund investments have been accounted for on an accrual basis.
  - (v) **Movement in the net market value of investments** – Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Fund account – expense items

- D) **Benefits Payable** – pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.
- E) **Taxation** – the fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments incurs withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

- F) **VAT** – VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.
- G) **Management Expenses** – Pension Fund management expenses are accounted for in accordance with the CIPFA Guidance Accounting for Local Government Pension Scheme Management Costs. All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with the Council's policy.
- H) **Investment Management Expenses** - All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.
- I) **Oversight and Governance Costs** - The cost of obtaining investment advice from external consultants is included in oversight and governance charges.
- A proportion of the Council's costs for management time spent by officers on investment management is charged to the fund and is included within oversight and governance costs.

### Net assets statement

- J) **Financial Assets** – financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
  - ii) Fixed Interest Securities – are recorded at net market value based on their bid price.
  - iii) Pooled Investment Vehicles – these are valued at either the closing bid price where a bid price exists or on the single unit price provided by the investment managers.
  - iv) Cash – the cash held in the Pension Fund current account is invested by the Council in accordance with its Treasury Management policy.
- K) **Foreign Currency Transactions** – dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value any cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- L) **Derivatives** – the fund uses derivative financial instruments to manage its exposure to specific risk arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivatives contracts are included in change in market value.
- The value of forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.
- Derivatives were used by the Fund Managers as part of their investment strategy to enable them to achieve our investment mandate objective.
- K) **Cash and cash equivalents** – cash comprises of cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash that is invested for longer than an overnight deposit is recognised as an investment asset.
- L) **Financial Liabilities** – the Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to

the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

- M) **Actuarial present value of promised retirement benefits** – the actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

- N) **Additional Voluntary Contributions** – AVCs are not included in the accounts which is in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 21).

#### 4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

**Pension fund liability** – the pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### 5. Events after the Year End Date

There have been no events since 31 March 2018 and up to the date when these accounts were authorised that require any adjustment to these accounts.

#### 6. Contributions Receivable

Contributions represent those amounts receivable from the various employing bodies in respect of their own contributions and those of their contributing employees. Under the provisions of the scheme, employees' rates are based on pay bandings and range from 5.5% to 12.5% of pensionable pay. The Fund's Actuary determines employer contribution rates (as a percentage of pensionable pay) which currently range from 12.5% to 30.5% plus any additional lump sum contributions required in respect of funding shortfalls at the time of the triennial actuarial valuation.

Early retirement - All capital costs, such as employee and employer contributions foregone, and the cost of making pension payments early in respect of non-ill-health early retirements, are met by the employer that approved the early retirement.

	<u>2016/17</u> <u>£000</u>	<u>2017/18</u> <u>£000</u>
<b>Employers</b>		
LBR	24,329	24,233
Scheduled Bodies	2,148	2,928
Admitted Bodies	1,093	1,163
	<u>27,570</u>	<u>28,324</u>
<b>Members</b>		
LBR	5,894	5,819
Scheduled Bodies	706	856
Admitted Bodies	338	313
	<u>6,938</u>	<u>6,988</u>
	<u>34,508</u>	<u>35,312</u>

Contributions split between normal, deficit funding and augmentation are outlined below:

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Normal Employer Contributions	20,621	20,085
Deficit Payments *	5,042	6,246
Augmentation (Early Retirements)	1,907	1,993
	<b>27,570</b>	<b>28,324</b>

\* The deficit recovery policy is set out in the Scheme's Funding Strategy Statement

## 7. Transfers In

Sums received for scheme members from other pension schemes that relate to periods of previous pensionable employment.

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Individual Transfers from other schemes – LBR	1,438	2,958
	<b>1,438</b>	<b>2,958</b>

## 8. Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme regulations.

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Pensions - LBR	23,167	24,557
- Scheduled Bodies	635	485
- Admitted Bodies	854	672
Commutation of Pensions and Lump Sum Retirement Benefits	6,603	7,030
Lump Sum Death Benefit	560	1,085
Interest	20	22
	<b>31,839</b>	<b>33,851</b>

## 9. Payments to and on Account of Leavers

Regulations permit a refund of employee contributions to be made to new members with less than three months initial scheme membership. Individual transfers are payments of accrued pension benefits in respect of scheme members who have left the scheme and joined a pension scheme elsewhere.

	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Refunds to members	51	65
Individual Transfers to other Schemes	1,004	1,785
	<b>1,055</b>	<b>1,850</b>

## 10. Management Expenses

The table below shows a breakdown of the management expenses incurred during the year. The London Borough of Redbridge carries out the administrative function in-house.

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Administrative Costs	838	692
Investment Management Expenses	1,820	2,329
Oversight and Governance	162	161
Audit Fees	21	21
	<b>2,841</b>	<b>3,203</b>

## 10(a). Investment Management Expenses

	2016/17 £000	2017/18 £000
Management Fees	1,762	2,295
Performance Management Fees	16	19
Custody Fees	42	15
	<b>1,820</b>	<b>2,329</b>

## 11. Investment Income

Interest, dividends and other income shown in the Fund Account have been broken down as follows:

	2016/17 £000	2017/18 £000
Fixed interest securities	2	-
Equities	254	-
Pooled Investments Vehicles	-	5,306
Property Unit Trusts	2,021	2,177
Cash Deposits	15	20
Other Investment Income	105	37
	<b>2,397</b>	<b>7,540</b>

## 12. Investments

During 2017/18 the Pension Fund continued to migrate its investments to the London CIV. In addition, the index-tracking mandate managed by State Street Global Advisors was transferred to Legal & General Investment Management Ltd under an agreement brokered by the London CIV. As at 31 March 2018 the remaining 35% of the Fund was managed by external fund managers.

The table below shows the Fund's investments by asset class reflecting the change to pooled units:

	2016/17 £000	2017/18 £000
<b>Investment Assets</b>		
Pooled Investments	682,365	703,916
Pooled Property Investments	59,151	65,635
Cash Deposits	1,741	2,463
Investment Income Due	-	-
<b>Total Investment Assets</b>	<b>743,257</b>	<b>772,014</b>
<b>Investment Liabilities</b>		
Amounts Payable for purchases	-	-
<b>Total Investment Liabilities</b>	<b>-</b>	<b>-</b>
<b>Net Investment Assets</b>	<b>743,257</b>	<b>772,014</b>

The table below shows a detailed analysis of the investments held by the Fund as at 31 March 2018 with comparison table showing detailed analysis of the investments held by the Fund as at 31 March 2017.

<b>2017/18</b>	<b>Value at 31/03/17 £000</b>	<b>Purchases at cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Fair value £000</b>	<b>Cash movement £000</b>	<b>Value at 31/03/18 £000</b>
Pooled Unit Trusts	682,215	266,254	(262,171)	17,468	-	703,766
London CIV	150	-	-	-	-	150
Property Unit Trusts	59,151	2,157	-	4,327	-	65,635
	<b>741,516</b>	<b>268,411</b>	<b>(262,171)</b>	<b>21,795</b>		<b>769,551</b>
<b>Other Balances</b>						
Cash Deposits	1,741	-	-	-	722	2,463
	<b>743,257</b>	<b>268,411</b>	<b>(262,171)</b>	<b>21,795</b>	<b>722</b>	<b>772,014</b>

<b>2016/17</b>	<b>Value at 31/03/16 £000</b>	<b>Purchases at cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Fair value £000</b>	<b>Cash movement £000</b>	<b>Value at 31/03/17 £000</b>
Index Linked	136	-	(140)	4	-	-
Pooled Unit Trusts	575,486	104,284	(102,279)	104,724	-	682,215
London CIV	150	-	-	-	-	150
Property Unit Trusts	55,806	1,934	-	1,411	-	59,151
	<b>631,578</b>	<b>106,218</b>	<b>(102,419)</b>	<b>106,139</b>	<b>-</b>	<b>741,516</b>
<b>Other Balances</b>						
Cash Instruments	-	-	(218)	218	-	-
Cash Deposits	2,833	-	-	384	(1,476)	1,741
Receivable - Investment Income	189	-	-	-	(189)	-
	<b>634,600</b>	<b>106,218</b>	<b>(102,637)</b>	<b>106,741</b>	<b>(1,665)</b>	<b>743,257</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and changes in the sterling value of assets caused by changes in exchange rates. In the case of the pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

As a result of the Fund's investments in pooled investment vehicles the Fund did not incur any direct transaction costs, such as broker fees and taxes. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

As shareholders of the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £0.150m of regulatory capital. During 2017/18 the investment portfolio with State Street Global Advisors was transferred to Legal & General Investment Management Ltd which is linked with the London Collective Investment Vehicle (CIV).

Cash balances invested by the Council on behalf of the Pension Fund are included within cash deposits. As at 31 March 2018 the Council invested cash amounting to £2.1m (£1.4m at 31 March 2017).

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>Pooled Investment Vehicles</b>		
UK Equities	144,292	146,221
Overseas Equities	126,020	133,662
Global Equities	112,295	127,202
Fixed Income (Absolute Return Fund)	64,155	64,027
Index Linked	92,769	92,673
Real Return Fund	142,684	139,981
	<b>682,215</b>	<b>703,766</b>
<b>Property Unit Trusts</b>		
UK	59,151	65,635
	<b>59,151</b>	<b>65,635</b>
<b>Other</b>		
London CIV	150	150
	<b>150</b>	<b>150</b>
<b>Cash</b>		
Sterling Deposits	1,741	2,463
	<b>1,741</b>	<b>2,463</b>

A summary of individual investments exceeding 5% of the Fund's total net assets is set out below:

<b>Investment</b>	<b>31 March</b>	<b>% of net</b>
	<b>2018</b>	<b>assets</b>
LGIM - UK Equity Index Unit Trust	146,221	19.0%
LGIM - North America Equity Index Unit Trust	41,944	5.4%
LGIM - Europe ex UK Equity Index Unit Trust	41,560	5.4%
Baillie Gifford - Global Equity Fund	127,202	16.5%
Aberdeen Standard - Absolute Return Fund	64,027	8.3%
Aberdeen Standard - Index Linked Bond Fund	92,673	12.0%
Newton - Real Return Fund	139,981	18.1%
Schroder Property Fund	65,635	8.5%

## 12(a) Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

<b>2016/17</b>			<b>2017/18</b>		
Designated as fair value through profit & loss £000	Loans and Receivables £000	Financial Liabilities at amortised cost £000	Designated as fair value through profit & loss £000	Loans and Receivables £000	Financial Liabilities at amortised cost £000
682,365	-	-	703,916	-	-
59,151	-	-	65,635	-	-
-	1,741	-	-	2,463	-
-	500	-	-	501	-
<b>741,516</b>	<b>2,241</b>	<b>-</b>	<b>769,551</b>	<b>2,964</b>	<b>-</b>
-	-	(334)	-	-	(391)
-	-	<b>(334)</b>	-	-	<b>(391)</b>
<b>741,516</b>	<b>2,241</b>	<b>(334)</b>	<b>769,551</b>	<b>2,964</b>	<b>(391)</b>
-	<b>743,423</b>	<b>-</b>	-	<b>772,124</b>	<b>-</b>

## 12 (b) Net Gains and Losses on Financial Instruments

31/03/17 £000		31/03/18 £000
106,356	<b>Financial Assets</b>	21,795
385	Fair value through profit & loss	-
106,741	Loans and receivables	21,795
-	<b>Financial Liabilities</b>	-
106,741	Fair value through profit & loss	-
	<b>TOTAL</b>	21,795

## 12 (c) Fair Values of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair value.

31/03/17 Carrying Value £000	31/03/17 Fair Value £000		31/03/18 Carrying Value £000	31/03/18 Fair Value £000
575,442	741,516	<b>Financial Assets</b>	716,262	769,551
1,741	1,741	Fair value through profit & loss	2,573	2,573
577,183	743,257	Loans and Receivables	718,835	772,124
		<b>Total Financial Assets</b>		
-	-	<b>Financial Liabilities</b>	-	-
-	-	Fair value through profit & loss	-	-
-	-	Financial Liabilities at amortised cost	-	-
577,183	743,257	<b>Total Financial Liabilities</b>	718,835	772,124

## 12 (d) Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into two levels, according to the quality and reliability of information used to determine fair values.

### Level 1

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

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine the fair value and where these techniques use inputs that are based significantly on observable market data.



<b>Values as at 31 March 2018</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>TOTAL £000</b>
<b>Financial Assets</b>			
Financial Assets at fair value through profit & loss	407,085	362,466	769,551
Loans and receivables	2,573	-	2,573
<b>Total Financial Assets</b>	<b>409,658</b>	<b>362,466</b>	<b>772,124</b>
<b>Financial Liabilities</b>			
Financial liabilities at fair value through profit & loss	-	-	-
Financial liabilities at amortised cost	-	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Financial Assets</b>	<b>409,658</b>	<b>362,466</b>	<b>772,124</b>

<b>Values as at 31 March 2017</b>	<b>Level 1 £000</b>	<b>Level 2 £000</b>	<b>TOTAL £000</b>
<b>Financial Assets</b>			
Financial Assets at fair value through profit & loss	382,608	358,908	741,516
Loans and receivables	1,741	-	1,741
<b>Total Financial Assets</b>	<b>384,349</b>	<b>358,908</b>	<b>743,257</b>
<b>Financial Liabilities</b>			
Financial liabilities at fair value through profit & loss	-	-	-
Financial liabilities at amortised cost	-	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Financial Assets</b>	<b>384,349</b>	<b>358,908</b>	<b>743,257</b>

## 12(e) Risk and Risk Management

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

### Market Risks

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

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

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

### Other Price Risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund's investment strategy.

### Other Price Risk – Sensitivity Analysis

The following table demonstrates the change in the net assets available to pay benefits if the market price were to increase or decrease by 10%.

#### Price Risk:

Asset Type	Value £000	Value on Increase £000	Value on Decrease £000
UK Equities	146,221	160,843	131,599
Overseas Equities	400,845	440,930	360,761
Fixed Income	156,700	172,370	141,030
Property	65,635	72,199	59,072

#### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the base currency of the fund, i.e. £Sterling.

A 10% fluctuation in the currency is considered reasonable based on the Fund's performance monitoring adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

#### Currency Risk (by asset class):

Asset Type	Value £000	Value on Increase £000	Value on Decrease £000
Overseas Equities	400,845	440,930	360,761

#### Credit Risk

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

In essence the fund's entire investment portfolio is exposed to some form of credit risk. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

### Liquidity Risk

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

The pension fund has immediate access to its cash holdings that are invested by the Council. The levels of cash held are reviewed by the Council as part of the periodic cash-flow forecasting and form part of the fund's investment strategy. The fund's investment strategy ensures that the majority of the fund is invested in assets that can be sold at short notice to avoid any liquidity risk.

## 13. Fund Management

As at 31 March 2018, the fair value of assets under management was £772m. The Fund has undertaken work in conjunction with the Fund's external adviser to implement a long-term strategy to match the objective of being fully funded in the longer term. The strategic benchmark of the Fund is 80% equities (including property and cash) and 20% bonds. As set out in the Pension Fund's Investment Strategy Statement, the asset allocation may be varied and rebalancing may be suspended at the discretion of the Pension Fund Committee.

As at 31 March 2018, the Fund was allocated as shown in the table below:

Market Value 31 March 2017				Market Value 31 March 2018			
Value of Portfolio	% of the Fund	Manager	Mandate	Value of Portfolio	% of the Fund		
£000	%			£000	%		
156,924	21.1	Aberdeen Standard	Fixed Income Mandate	156,700	20.3		
112,295	15.1	Baillie Gifford(CIV)	Global Equity Mandate	127,202	16.5		
142,684	19.2	Newton (CIV)	Real Return Mandate	139,982	18.1		
237,634	32.0	SSgA/LGIM	Global Equity Index Tracking Mandate	242,563	31.4		
32,678	4.4	Schroders	Emerging Markets Equity Mandate	37,319	4.8		
59,489	8.0	Schroders	Property	65,995	8.6		
1,553	0.2	LBR	Cash & LCIV	2,253	0.3		
<b>743,257</b>	<b>100</b>			<b>772,014</b>	<b>100</b>		

## 14. Investments as at 31 March 2018

**Investments:** the Fund's asset mix was as follows:

	2016/17	2017/18
	%	%
Equities	71	70
Bonds	21	20
Property	8	9
Cash and other investments	-	1
<b>Total</b>	<b>100</b>	<b>100</b>

## 15. Investment Strategy Statement

The Council is required by Regulation to prepare and publish an Investment Strategy Statement (ISS). This Statement sets out the Fund's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated. A copy of the ISS can be found on the Council's website [www.redbridge.gov.uk](http://www.redbridge.gov.uk).

## 16. Current Assets and Liabilities

	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Contributions due	495	477
Sundry Debtors	5	8
Prepaid Expenses	0	16
<b>Total of Current Assets</b>	<b>500</b>	<b>501</b>
Accrued benefits	(143)	(129)
Accrued expenses	(191)	(255)
Sundry Creditors	-	(7)
<b>Total of Current Liabilities</b>	<b>(334)</b>	<b>(391)</b>

## 17. Stock Lending

The Fund does not participate in stock lending arrangements.

## 18. Related Party Transactions

The London Borough of Redbridge is the single largest employer of members in the Pension Fund and contributed £24.233m to the Fund in 2017/18 (£24.328m in 2016/17).

During the year no Councillors or Chief Officers with direct responsibility for Pension Fund issues have undertaken any declarable transactions with the Pension Fund, other than the following.

- Administrative services undertaken by the Council of the Pension Fund were £0.415m (£0.499m in 2016/17).
- Investment services undertaken by the Council of the Pension Fund were £0.120m (£0.120m in 2016/17).

There is one member of the Pension Fund Committee (Councillor O'Shea) that is in receipt of pension benefits from the Redbridge Pension Fund. Each member of the Pension Fund Committee is required to disclose their interest at each meeting.

The key management personnel of the Pension Fund are the members of the Pension Fund Committee and the Corporate Director of Resources.

## 19. Actuarial Valuation

In 2017/18, the contribution paid by the Council as an employer was determined following an actuarial valuation of the Fund as at the 31 March 2016. The valuation as at 31 March 2016 set the employer's contribution rates for the years 2017/18, 2018/19 and 2019/20. The actuarial method used by the Actuary is known as the "projected unit method". The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund which is open to new members.

For this valuation the actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

<b>Assumption</b>	<b>Rate</b>
The rate of increase in pensionable earnings	2.1%
"Gilt-based" discount rate	4.2%
The level of increase in earnings growth	2.1%

The result of the 2016 valuation was that the value of the Fund's assets was actuarially assessed as £634m, which was sufficient to meet 80% of its accrued liabilities. The employer's contribution rate required as a result of the valuation incorporates a phased increase in the balance of the Fund to meet 100% of future benefit liabilities, as required by Pension Fund regulations. As a result of the 2016 valuation, those employers within the Fund that have funding shortfalls are required to make repayment over an agreed period in accordance with the policies set out in the Pension Fund's Funding Strategy Statement (available on the Council's web site)

www.redbridge.gov.uk), and certified by the Actuary in the Actuarial Valuation Report. The new employer contribution rates and shortfall payments commenced from 1 April 2017.

## 20. Actuarial Present Value of Promised Retirement Benefits

The Fund's Actuary prepares reports for the purposes of IAS19 for the Council and other employers participating in the Pension Fund upon request. Further information pertaining to the Council is included at note 40 of the Notes to the Core Financial Statements.

The Actuary has calculated that the liabilities at 31 March 2018 for the entire Fund comprises of:

<b>Type of Member</b>	<b>2016/17 Liability £000</b>	<b>2017/18 Liability £000</b>
Employees	457	495
Deferred Members	262	259
Pensioners	417	399
<b>Total</b>	<b>1,136</b>	<b>1,153</b>

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is as follows (based upon IAS19 information).

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Present value of funded obligations	(1,136)	(1,153)
Fair value of Fund Assets	743	772
<b>Net Liability for the whole Fund</b>	<b>(393)</b>	<b>(381)</b>

These calculations have been determined using the following financial assumptions:

<b>Year Ended</b>	<b>31 March 2017 % p.a.</b>	<b>31 March 2018 % p.a.</b>
Inflation / Pension Increase Rate	2.4	2.4
Salary Increase Rate	2.4	2.4
Discount Rate	2.6	2.7

## 21. Additional Voluntary Contributions (AVC's)

The Council has a statutory obligation to provide an additional voluntary contribution (AVC) facility. This facility provides the means for members of the Pension Fund to pay contributions into a policy, which will be used to buy additional pension benefits when the member retires. A total of 13 members of the Pension Fund contribute to the AVC schemes. In 2017/18 £39,428 of contributions were made to the AVC Scheme (£29,148 in 2016/17).

<b>Market Value 31 March 2017 £000</b>	<b>AVC Provider</b>	<b>Market Value 31 March 2018 £000</b>
171	Equitable Life	178
154	Clerical Medical	171
275	Standard Life	268
<b>600</b>	<b>TOTAL</b>	<b>617</b>

The Council, as employer, does not make any contribution to the AVC scheme and these funds do not form part of the Council's Pension Fund accounts.

## 22. Contingent Liabilities

There were no material contingent liabilities or contractual commitments at the year-end (NIL – in 2017).

## PUBLICATIONS

The Pension Fund publishes the following documents on the Council's website [www.redbridge.gov.uk](http://www.redbridge.gov.uk) within the section "About the Council": "Our Finance Services": "Pension Fund".

### 1. Annual Business Plan

The Pension Fund Committee undertakes a review of the activities of the committee over the previous twelve months and sets out the tasks for the forthcoming year. This would include reviewing policy statements and monitoring the performance of the Fund. The Annual Business Plan is agreed each year at the Pension Fund Committee meeting held in May/June.

### 2. Pension Administration Strategy (Appendix 1)

This statement is produced by the Pension Administration Team and is revised periodically to ensure that it remains consistent with recommended practices. The statement sets out the Council's policy for:

- setting levels of performance;
- procedures for securing compliance with Regulations;
- setting Performance Targets.

### 3. Communication Policy Statement (Appendix 2)

This statement is produced by the Pension Administration Team and is revised periodically to ensure that it remains consistent with recommended practices. The statement sets out the Council's policy for:

- communicating with interested parties including members and other employers within the scheme;
- the method and frequency of communications used;
- promoting the LGPS to seek to increase membership within the scheme;
- performance objectives for administering the scheme.

### 4. Governance Compliance Statement (Appendix 3)

The objective of this statement is to make the administration and stewardship of the scheme more transparent and accountable to its stakeholders. It therefore provides details of:

- how the Council, as Administering Authority maintains and manages its pension fund function in accordance with regulatory requirements;
- the structure for the decision making process, which includes details of the various responsibilities for administering the Pension Fund;
- the frequency of Pension Fund Committee meetings;
- the voting rights of the Committee members;
- accessibility to information and training.

The Governance Compliance Statement will be reviewed in 2018/19 in light of the governance review undertaken by the Council.

**5. Investment Strategy Statement (ISS) (Appendix 4)**

Administrating Authorities are required to prepare, maintain and publish a written Investment Strategy Statement governing their decisions about investments. This document therefore sets out details of:

- the strategy for investing and the risks associated with such investing
- the approach adopted by the Fund towards pooling
- the Fund's policy towards social, environmental and corporate governance;
- the Fund's policy with regards to the exercising of rights including voting;
- Details of the advice sought with regards to investing.

**6. Fund Strategy Statement (FSS) (Appendix 5)**

This statement is prepared in collaboration with the Fund's Actuary and after consultation with the Fund's employers and investment advisers and sets out:

- the strategy for the Pension Fund to show how the pension liabilities are to be met whilst seeking to achieve a constant and affordable employer contribution rate;
- shows details as to how the Fund is seeking to achieve its objectives and the risk associated with the strategy;
- details of the responsibilities for each key party, including the employers, employees and actuary.

The Funding Strategy Statement is reviewed periodically to coincide with the valuation. The next valuation is due 31 March 2019.

The Agenda and Minutes of the Pension Fund Committee meetings are also available on the Council's website.

## CONTACT DETAILS

Registered Address      Corporate Director of Resources  
London Borough of Redbridge  
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255 – 259 High Road  
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Essex  
IG1 1NN

Pension Enquiries      Deborah Macaly  
[pensions\(lgps\)admin@redbridge.gov.uk](mailto:pensions(lgps)admin@redbridge.gov.uk)  
020 8708 3403

Investments Enquiries [corporate.accounting@redbridge.gov.uk](mailto:corporate.accounting@redbridge.gov.uk)





# Pension Administration Strategy

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# Contents

Introduction

Matters to be considered

Liaison and Communication

Levels of Performance

Statutory Requirements

Circumstances for giving written notice of  
Unsatisfactory Performance

Performance Reports

Charging Schedule

# THE LONDON BOROUGH OF REDBRIDGE PENSION FUND

## Pension Administration Strategy

### 1. Introduction



This policy statement has been prepared by the London Borough of Redbridge as the administering authority to the London Borough of Redbridge Pension Fund in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013 (as amended).

The administering authority will keep this policy statement under review and make revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

In preparing, reviewing or making revisions to this policy, the administering authority will consult with its Scheme Employers and publish the statement to each Scheme employer and to the Secretary of State.

The administering authority and its Scheme Employers must have regard to this pension administration strategy when carrying out their Scheme functions.

It is effective from 1 September 2016.

### 2. Matters to be considered



- procedures for liaison and communication with Scheme employers in relation to which it is the administering authority (“its Scheme employers”)
- the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
  - the setting of performance targets
  - the making of agreements about levels of performance and associated matters, or
  - such other means as the administering authority considers appropriate

- procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance
- procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions
- the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b) (f )

the publication by the administering authority of annual reports dealing with:

- the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
- such other matters arising from its pension administration strategy as it considers appropriate; and
- such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.



Pension administration relies largely on information supplied to the pension administration team by the Scheme employers making up the total membership of the pension scheme. The pension team can be contacted at any time during normal office hours on 020 8708 83000. An office email facility is also available at [HR.Direct@redbridge.gov.uk](mailto:HR.Direct@redbridge.gov.uk)

Each employer must nominate a pension liaison officer to deal with initial enquiries received from the administering authority. If preferred, a number of officers can be nominated (up to a maximum of 4) by the employer, providing that their specific responsibilities are identified. The employer will inform the administering authority immediately if these details are amended in anyway.

The employer will provide the following details in respect of their pension liaison officer(s):

- name
- position
- direct telephone number (if direct dial is available)
- email contact details
- specific responsibilities of each officer (if more than one has been nominated).

The administering authority will maintain a schedule of pension liaison officers and ensure that all staff concerned with pension administration use the contact details provided by the employer.



The administering authority maintains a Pension Fund website with a dedicated employers' area. The information on the website includes:

- general employer guidance and information on procedures for administering the Local Government Pension Scheme
- employer and employee factsheets used to communicate current issues pertaining to the Scheme
- copies of all publications issued by the Pension Fund including newsletters, scheme guides and factsheets
- links to the LGPS regulations, LGE Circulars, CLG Guidance and consultation documents

The administering authority will hold meetings every 6 months with the pension liaison officers for Employers to discuss current pension issues and administration procedures.

Further details regarding communications between the administering and Scheme Employers are contained within the London Borough of Redbridge 'Pension Fund Communications Policy Statement'.

## 4. Levels of Performance



In order to achieve and monitor performance targets, the administering authority will consult with Scheme Employers and produce a Service Level Agreement (SLA) between itself and each Scheme employer, setting out the responsibilities of both the administering authority and

the Scheme employer in administering the Local Government Pension Scheme. This will be reviewed on an annual basis.

The administering authority will keep the SLA under review and consult with the Scheme Employers should amendments be required.

A number of Key Performance Indicators (KPIs) have been identified and will be reported to the Pension Board of the London Borough of Redbridge Pension Fund. The KPIs to be achieved include:

- setting up a new member record on the pension administration system and sending the member confirmation they have been admitted to the pension scheme within 20 working days of the end of the month the employee joined or the date of notification by the Employer, whichever is the later
- calculating deferred pension benefits and notifying members of their rights upon termination of pensionable employment within 20 working days of leaving or notification by the Employer, whichever is the later
- issue of retirement benefits within 30 days of the member having retired from the scheme or notification by the Employer and receipt of the appropriate forms from the Member, whichever is the later



- sending a statutory notification to a member following a change to pensionable status within 20 working days of the end of the month in which the change takes effect or notification by the Employer, whichever is the later.

The administering authority will consult with the Scheme Employers if the KPIs are amended in anyway.

## • Statutory Requirements



Other than the deadlines and performance standards set out in the SLA, a number of other statutory requirements are made by the Scheme Regulations. For the purpose of this strategy statement some of these are detailed in this section.

Each Scheme employer is required to produce, publish and maintain a statement of policy regarding the exercise of certain discretionary functions available to them within the LGPS regulations. This policy statement must be kept under review and where revisions are made, the revised policy statement must be published before the expiry of one month from the effective date of revision. A copy of the policy statement must be sent to the administering authority.

Each Scheme employer must specify the name, job title, and address of a person to whom applications under Stage 1 of the Internal Disputes Resolution Procedures should be made. When an amendment to these details is made, a notification of the change should be sent to the administering authority immediately.

Each Scheme employer must determine the rate at which its employees should contribute to the Scheme with effect from 1 April each year and where an employee holds more than one post, the rate applicable to each post. Where there is a material change to a member's pensionable pay in the course of a financial year, the employer may re-determine the contribution rate to be applied.

Each Scheme employer must obtain the approval of the administering authority as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.

Each Scheme employer must pay to the administering authority all contributions deducted from the pay of its employees and the respective employer contributions. Payment must be made no later than the 19th day of the month following the period for which the pension contributions have been deducted.

Each Scheme employer must submit the information detailed in the iConnect payroll extract file specification (Appendix A) to the administering authority each month using the iConnect portal. Should the portal not be available to the employer the information must be submitted using a supplied excel template.

*Please note: The amount of any Additional Voluntary Contributions should **NOT** be included.*

Each Scheme employer must pay to the administering authority any charge identified by the



administering authority as a result of the Scheme employer's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 21 days from the date of receipt of an invoice as issued by the administering authority.

Each Scheme employer must also pay to the administering authority any charge identified by the administering authority as a result of the Scheme employer's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions as described above. Such payments should be made within 21 days from the date of receipt of an invoice as issued by the administering authority.

## 6. Circumstances for giving written notice of unsatisfactory performance



Where a Scheme employer fails to make payment of employee and employer contributions by the 19th of the month following the period in relation to which the contributions were deducted, the administering authority will give a written notice of unsatisfactory performance

to the Scheme employer. If failure to make payment by the required deadline occurs more than once in any 12-month period the administering authority will charge the Scheme employer in accordance with the charging schedule attached to this strategy statement.

Where a Scheme employer has failed to settle an invoice as described in this part within the prescribed 21-day deadline, the administering authority will give a written notice of unsatisfactory performance to the Scheme employer. If failure to make payment by the required deadline occurs more than once in any 12-month period the administering authority will charge the Scheme employer in accordance with the charging schedule attached to this strategy statement.

If as a result of an Scheme employer's failure to notify the administering authority that one of its employees has become entitled to the release of their pension benefits, the Pension Fund should become liable to pay interest on any retirement lump sum paid to the member, the administering authority will issue a written notice of unsatisfactory performance and invoice the Scheme employer for the amount of interest paid. Such circumstances arise where payment of the lump sum is made later than 30 days following the date from which the benefits are due and interest is calculated in accordance with regulation 81(4) of the Local Government Pension Scheme Regulations 2013 (as amended).

Persistent failure to meet the targets laid down in the SLA will result in the administering authority issuing a written notice of unsatisfactory performance to the Scheme employer. The administering authority will assist the Scheme employer to resolve any issues but continuing failure to meet the targets will result in the administering authority imposing a fine on the Scheme employer in accordance with the charging schedule attached to this strategy statement.

The administering authority will report any occasion where it has had to issue a written notice of unsatisfactory performance and the amount of any charges made, to the Local Pension Board of the London Borough of Redbridge Pension Fund.



## 7. Performance Reports



The administering authority will keep records of the performance of each Scheme employer on a monthly basis.

Every quarter, the administering authority will report back to each Scheme employer on their performance.

The administering authority will produce and publish an annual performance report that will be made available to all Scheme Employers. This will be published on the London Borough of Redbridge Pension Fund website along with the KPIs for the pension administration team.

### Charging Schedule

1	Failure to notify the pension team of new starter details within 10 working days from the end of the month in which scheme membership commenced.	£80 per case
2	Failure to notify the pension team of a change to a scheme member's status within 10 working days from the end of the month in which the change took effect.	£80 per case
3	Failure to notify the pension team of the leaving details of a scheme member within 10 working days from the end of the month in which the employment ended.	£80 per case
4	Failure to notify the pension team of the retirement details of a scheme member within 5 working days from the date of the member's retirement.	£80 per case
5	Where as a result of the Scheme employer's failure to notify the pension team of a scheme member's retirement, interest becomes payable on any retirement lump sum paid, the administering authority will recharge the total amount of interest to the Scheme employer.	Interest calculated in accordance with regulation 81(4) of the Local Government Pension Scheme Regulations 2013 (as amended)
6	Failure to make payment of monthly employee and employer contributions by the 19th of the month following the period to which the contributions relate	Interest is payable in accordance with the LGPS Regulations 2013 s71.
7	Failure to submit the information detailed in the iConnect payroll extract file specification (Appendix A) to the administering authority each month within 10 working days from the end of the month to which the information relates.	£50 per working day
8	Failure to make payment of a capital cost owing to the pension fund within 21 days from the date of issue of an invoice.	Interest is payable in accordance with the LGPS Regulations 2013 s71.



### Notes to Charging Schedule

- Notifications of all new starters must include the information contained in the service level agreement. Late notifications will only be reported where the standards laid down in the service level agreement have clearly not been met as a result of the employer's failure to meet the required standards.
- Notifications of relevant pension status changes are set out in the service level agreement. Late notifications will only be reported where the standards laid down in the service level agreement have clearly not been met as a result of the employer's failure to meet the required standards.
- Notifications of all leaver details must include the information contained in the service level agreement. Late notifications will only be reported where the standards laid down in the service level agreement have clearly not been met as a result of the employer's failure to meet the required standards.
- Notifications of all retirement details must include the information contained in of the service level agreement. Late notifications will only be reported where the standards laid down in the service level agreement have clearly not been met as a result of the employer's failure to meet the required standards.
- Regulation 81(4) of the Local Government Pension Scheme Regulations 2013 (as amended) states that interest must be calculated at one per cent above base rate on a day to day basis from the due date of payment and compounded with three-monthly rests. If late payment of a lump sum occurs as a result of a failure by the scheme member to provide information to the pension team, the pension fund will be liable for the payment of any interest due.
- The method of payment of contributions is set out in the service level agreement.
- The policy of the London Borough of Redbridge, as administering authority to the London Borough of Redbridge Pension Fund, is to have all invoices paid by the due date specified on the invoice. If payment is not made within that timescale a reminder will be sent followed by a demand. If payment is not received Court action may be taken.

**In accordance with paragraph 7 of this policy statement, the Pension Fund will monitor the performance of employers on an ongoing basis and report the results to the Pension Board. The charges detailed in sections 1 to 4 and section 7 of the above table may be made in cases of persistent underperformance and will only be invoked once all steps have been taken to resolve any issues causing an employer's under performance and with the consent of the Pension Board. The charges detailed in sections 5 to 6 and section 8 of the Charging Schedule of the above table will be imposed automatically.**



# **Pension Fund**

## Communications Policy Statement

# Contents Page

Introduction

Regulatory Framework

Responsibilities and Resources

Communication with key audience groups

Our audience

How we communicate with:

Active, Deferred and Pensioner Members

Prospective Members and their Employing Authorities

Employing Authorities

Senior managers

Union representatives

Elected members/the Local Pensions Board

Pension section staff

Tax payers

Other stakeholders/interested parties

Performance Measurement

Timeliness

Review Process

# Introduction



This is the Communications Policy Statement of the London Borough of Redbridge Pension Fund, (the Administering Authority).

The Fund liaises with 22 employers and over 15,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 July 2016.

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

**Deborah Macaly, Head of HR Operations**

**Deborah.macaly@redbridge.gov.uk**

London Borough of Redbridge

HR Services

255 – 259 High Road Ilford

Essex IG1 1NN

**Email:HRHelpdesk@redbridge.gov.uk Telephone 020 8708 3000**

# Regulatory Framework



This policy statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013 (as amended). The provision requires us to:

“... prepare, maintain and publish a written statement setting out our policy concerning communications with:

- members
- representatives of members
- prospective members; and
- scheme employers.

In addition it specifies that the statement must set out our policy on:

- the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers
- the format, frequency and method of distributing such information or publicity; and
- the promotion of the Scheme to prospective members and their employers.



## Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following key groups:

- active members
- deferred members
- pensioner members
- prospective members
- employing authorities (scheme employers and admission bodies)

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as HM Revenue and Customs, the Department of Communities and Local Government, the Pensions Regulator, solicitors, the Pensions Advisory Service, senior officers, dependants, actuaries, unions and other pension providers. This policy also covers how we communicate with this wider stakeholder group.

## How we communicate

General communication

We will strive to 'e'-enable much of our correspondence with our members but also use more traditional methods where members do not have access to technology. We will encourage electronic communications, for example, by e-mail and will aim to respond by email. We will ensure our website is kept up-to-date and signpost this to all our members whenever we communicate with them. [www.redbridge.gov.uk/pensions](http://www.redbridge.gov.uk/pensions).

Our pension team is responsible for dealing with queries from our customers. Any phone calls or visitors are then passed to the relevant person within the section. The team can be contacted by emailing the HR Helpdesk at: [HR.Direct@redbridge.gov.uk](mailto:HR.Direct@redbridge.gov.uk).

## Accessibility

All our staff have received training on customer service and we ensure that members receive a professional and polite service when dealing with us.

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically.

The 'Louder than Words' (LTW) charter mark is a best practice initiative run by Action on Hearing Loss (previously RNID) for organisations who want to provide excellent services and accessibility for Deaf, deafened and hard of hearing service users and employees.

The HR Service was successfully assessed against 10 standards linked to the following areas:

- communicating well with customers and staff
- having a safe and deaf-friendly environment
- making it easy for people to contact and access the Council and HR Services

We achieved the charter mark in 2014, and were successfully re-accredited in 2015. We will always be alert to ensure we meet our member's needs, especially spending more time with those who find pensions complicated.

### Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- LGPS to be used as a tool in the attraction and retention of employees all
- members better informed about the benefits of the LGPS
- as a result of improved communication, for queries and complaints to be reduced to engage with and inform all our stakeholders

Our objectives will be met by providing the following general communications; ,:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group (Active, Deferred, Pensioner or All)
Scheme booklet	Website	At major scheme	-	Active
Newsletters	Website	Annually and after any scheme	-	Active
Pension Fund Report and	Website	Annually	On Website	All
Annual Benefit Statements	Paper based	By 31 August each year	Post to home address/via employers for active members. To home address for deferred members.	Active and Deferred.
Factsheets	On Website	Continually available	-	Active and deferred
Website	Electronic	Continually available	Continually available	All
Pre- Retirement Courses	Face to face	As and When Required	As and When Required	Employees considering retirement within next two years

## Explanation of communications

**On line Scheme Booklet** - A booklet providing an overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

**Pension Fund Report and Accounts** – Provides a review of the administration of the Pension Scheme and details of the investments of the Pension Fund at the end of the financial year. This report also includes the Pension Fund's Statement of Accounts, Investment Strategy Statement, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement. This is a detailed and lengthy document and is available to download from the Council's website.

**Annual Benefit Statements** – For active members these include the current value of benefits. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. In relation to deferred members, the benefit statement includes the current value of the deferred benefits as well as the associated death benefits.

**Factsheets** - These are topic specific leaflets

**Website** - provision of scheme specific information, forms that can be printed or downloaded, access to documents, links to related sites and contact information.

**Pre-Retirement Courses** - Planning for the Future

A one day workshop providing an opportunity for employees who are considering retiring within the next two years to plan and reflect on the lifestyle choices they have. The aim is to raise awareness of financial issues and offer handy tips on planning for retirement.

### **Promotion of the scheme to prospective members and their Employing Authorities**

Our communications objectives with prospective members are:

- raising awareness of the LGPS
- LGPS to be used as a tool in the attraction of employees

We will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

<b>Method of Communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group (Active, Deferred,</b>
Scheme booklet	On Website	On commencing employment	On Line	New employees

## Explanation of communications

**On line Scheme booklet** - A booklet providing an overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

## Communicating with Employing Authorities

Our communications objectives with employers are to:

improve

- relationships
- assist them in understanding costs/funding issues and understanding their obligations
- work together to maintain accurate data ensure smooth transfers of staff
- ensure they understand the benefits of being an LGPS employer
- assist them in making the most of the discretionary areas within the LGPS

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Website	Annually	Electronically	Main contact for all employers
Employer Communication	Website / email	As an when required, but at least annually	Electronically	Main contact for all employers
Meeting with Pensions Team Leader	Face to face	6 Monthly	Invitation sent by post or email	Senior management involved in funding and HR issues.
Induction Meeting for New Employers	Face to Face	Within 2 Months of Signing the Admissions Agreement	Invitation sent by Email	Responsible Officers for providing Pensions Information
Service Level Agreement	Electronic Document	Monitored Quarterly for any Breaches	By Email	Responsible Officers for Providing Pensions Information

## Explanation of communications

**Employer Communication** - to consult on the Funding Strategy Statement.

**Pension Fund Report and Accounts** - Provides a review of the administration of the Pension Scheme and details of the investments of the Pension Fund at the end of the financial year. This report also includes the Pension Fund's Statement of Accounts, Investment Strategy Statement, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement. This is a detailed and lengthy document and is available to download from the Council's website.

**Induction Meeting** - To take the new Employer through the Welcome Pack and ensure they are clear about roles and responsibilities.



### Communication with senior managers

Our communications objectives with senior managers are to:

- ensure they are fully aware of developments within the LGPS ensure that they understand costs/funding issues
- promote the benefits of the scheme as a recruitment/retention tool

Our objectives will be met by providing the following communications:

Method of Communicati	Media	Frequency of issue	Method of Distributio	Audience Group
Briefing papers that highlight key issues or developments relating to the LGPS and the Fund.	electronic	As and when required	Email or hard copy	All

### Communication with union representatives

Our communication objectives with union representatives are to:

- ensure they are aware of the Pension Fund’s policy in relation to any decisions that need to be taken concerning the scheme
- engage in discussions over the future of the scheme
- provide opportunities to educate union representatives on the provisions of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
JCC Meetings	Face to face	As Required	-	All

### Communication with elected members/ the Pensions Fund Committee/ the Local Pensions Board

Our communications objectives with elected members/the Pensions Board are to : ensure they

- are aware of their responsibilities in relation to the scheme
- seek their approval to the development or amendment of discretionary policies, where required
- seek their approval to formal responses to government consultation in relation to the administration of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Briefing papers	electronic	As and when required	Email	Any members as appropriate
Scheme and investment updates/training sessions	Paper based and electronic	As and when required	Email, hardcopy report or presentation	All members of the Pensions Fund Committee
Pension Fund Committee meetings	Meeting	Quarterly	-	All members of the Pensions Fund Committee
Pension Board meetings	Meeting	Quarterly	-	All members of the Pension Board
Pension Fund Annual Report and Accounts	Electronically	Annually	Electronically	All members of the Pensions Fund Committee, Local Pension Board

### Explanation of communications

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

Scheme and investment updates/training sessions – providing a broad overview of the main provisions of the LGPS, and elected members responsibilities within it.

Pension Fund Committee meetings – a formal meeting of elected members, attended by senior managers, at which Members review the performance of the Fund and its various Fund Managers. Members meet with the Fund Managers periodically and have the opportunity to discuss the Fund Managers’ investment decisions and strategy.

### Pension Board Meetings

The Public Service Pensions Act 2013 and the Public Service Pensions Act (Northern Ireland) 2014 require Pension Boards to be established for the public service pension schemes.

These are initially the schemes for civil servants, armed forces, health service workers, teachers, judiciary, police, firefighters and local government workers. In due course it may also include some public body schemes.

The role of each Board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

Pension Boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.

Scheme regulations (or scheme-specific guidance) may provide further detail on the scope

Pension Fund Report and Accounts – Provides a review of the administration of the Pension Scheme and details of the investments of the Pension Fund at the end of the financial year. This report also includes the Pension Fund’s Statement of Accounts, Investment Strategy Statement, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement. This is a detailed and lengthy document and is available to download from the Council’s website.

### Communication with the Pensions Administration Team

Our communications objectives with the Pension Administration Team are to:

- ensure they are aware of changes and proposed changes to the scheme provide on the job training to new staff
- develop improvements to services, and changes to processes as required agree and
- monitor service standards

Our objectives will be met by providing the following communications:

Method of Communicati	Media	Frequency of issue	Method of Distributio	Audience Group
Provision of direct training	Face to face	As and When required	By arrangement	All
Team meetings	Face to face	Minimum of 1 every 6 weeks	By arrangement	All
Attendance at seminars to enhance knowledge on more	Externally provided	As and when advertised and appropriate	By email, paper based	All

### Policy on communication with tax payers

Our communications objectives with the Redbridge Community are to:

- provide access to key information in relation to the management of the scheme outline the management of the scheme
- Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distributi	Audience Group
Pension Fund Report and Accounts	Redbridgei and on Pension Fund website	Annually	Electronically	All
Public Committee	Redbridgei	As and when available	Electronically	All

## Explanation of communications

Pension Fund Report and Accounts – Provides a review of the administration of the Pension Scheme and details of the investments of the Pension Fund at the end of the financial year. This report also includes the Pension Fund’s Statement of Accounts, Investment Strategy Statement, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement. This is a detailed and lengthy document and is available to download from the Council’s website.

Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

## Communication with other stakeholders/interested parties

Our communications objectives with other stakeholders/interested parties are to:

- meet our obligations under various legislative requirements
- ensure the proper administration of the scheme
- deal with the resolution of pension disputes administer the AVC scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
<ul style="list-style-type: none"> <li>• Pension Fund valuation reports</li> <li>• R&amp;A certificates</li> <li>• Revised R&amp;A</li> <li>• Cessation valuations</li> </ul>	Electronic	Every three years	Via email	The Department for Communities and Local Government (CLG)/National Scheme Advisory Board/ Her Majesty’s Revenue and Customs (HMRC)/ all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	DCLG
Formal resolution of pension disputes	Hard copy or electronic	As and when a requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	DCLG/HMRC/ the Pensions Regulator

## Explanation of communications

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

Details of new employers – a legal requirement to notify DCLG of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme)

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

Completion of questionnaires – various questionnaires that may be received, requesting specific information in relation to the structure of the LGPS or the makeup of the Fund.

## Levels of Performance and Measurement



To measure the success of our communications with active, deferred and pensioner members, we will monitor the following areas of performance.

<b>Audience</b>	<b>Communication</b>	<b>Statutory delivery</b>	<b>Target delivery period</b>
New Member	Sending out confirmation that they have been admitted to the pension scheme	-	Within 20 working days of the end of the month the employee joined or the date of notification by the Employer, whichever is the later.
Active and Deferred members.	Annual Benefit Statements	By 31 August each year	Annually in accordance with legislation.
Active and deferred members retiring	Issue of retirement benefits	Within two months of retirement	Within 30 days of the member having retired from the scheme or notification by the Employer and receipt of the appropriate forms from the Member, whichever is the later.
Active and Deferred Members	Sending out a statutory notification following a change to pensionable status	-	Within 20 Working Days of the end of the month in which the change takes effect or notification by the Employer, whichever is the later.

## Reporting Performance Information

Details of our performance will be reported to our Human Resources Service Management Team and the Local Pensions Board regularly throughout the year.



This Communication Policy will be reviewed to ensure it meets audience needs and regulatory requirements every two years. A current version of the Policy will always be available on our website at [www.redbridge.gov.uk/pensions](http://www.redbridge.gov.uk/pensions)



# **London Borough of Redbridge Pension Fund**

## **Governance Compliance Statement**

## Introduction

This is the Governance Compliance Statement of the London Borough of Redbridge Pension Fund, which is administered by the London Borough of Redbridge as the Administering Authority (the Authority). The purpose of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to its stakeholders. It sets out the way that the Council, as an Administering Authority maintains and manages its pension fund function in accordance with regulatory requirements.

## Regulatory Framework

The Local Government Pension Scheme Regulations 1997 required Local Government Pension Scheme (LGPS) Administering Authorities to publish details of their governance and stewardship arrangements by 1 April 2006. On 30 June 2007, the 1997 regulations were further amended to require Administering Authorities to prepare, maintain and publish a statement detailing the extent of compliance against a set of principles set as detailed in the draft guidance from Communities and Local Government (CLG). Where an authority does not comply with these principles, they are required to state the reason for not doing so. The Authority's statement is attached at Annex 1.

The Governance Compliance Statement is required by the provisions of Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (the regulations).

### **(1) The Authority must**

- **Keep the statement under review;**
- **Make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph 2 and**
- **if revisions are made**
- **publish the statement as revised, and;**
- **send a copy to the Secretary of State.**

### **(2) The matters are**

- **Whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee, or an officer of the authority;**
- **If it does so:**
  - **The terms, structure and operational procedures of the delegation;**
  - **The frequency of any committee or sub-committee meetings;**
  - **Whether such a committee or sub-committee includes representatives of employing authorities, including authorities which are not scheme employers, or members, and, if so, whether those representatives have voting rights.**

- (c) The extent to which a delegation, or the absence of a delegation, complies with the guidance given by the Secretary of State, and, to the extent it does not so comply, the reasons for not complying.**

**(3) In reviewing and making revisions to the statement, the authority must consult with such persons, as it considers appropriate.**



## Governance Compliance Statement

### Constitution

The Constitution of the London Borough of Redbridge sets out how the Council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The law stipulates some of these processes, while others are a matter for the Council to choose.

The Constitution sets out the framework under which the Pension Fund is to be administered. The Pension Fund Committee undertakes the management of the Pension Fund in accordance with the Committee's Terms of Reference.

The Constitution and the more detailed procedures and delegations relating to the responsibilities and operation of the Council's functions include the arrangements for the management and administration of the Council's Pension Fund. A copy of the Constitution can be obtained from the Council's website [www.redbridge.gov.uk](http://www.redbridge.gov.uk), local libraries or by writing to the Council at the address shown on page 5.

### Management Arrangements

**Scheme Administration** – The Revenues and Benefits Service Area is responsible for the day-to-day administration of the Pension Fund. Responsibilities include membership arrangements, the calculation of benefits, and the maintenance of records for scheme members and employers. These functions are carried out in accordance with the pension regulations and Council policies. The Assistant Director of Revenues, Benefits and Transactional Centre meets with the Corporate Director of Resources to report on pension scheme administration matters.

**Scheme Management and Investments** – in accordance with the Council's Constitution the responsibility for the management and investment of the Pension Fund is delegated to the Pension Fund Committee. The Pension Fund Committee has recommended that the management of the Fund's assets be delegated to specialist investment management firms on a discretionary basis. Investment managers are appointed in accordance with the pension regulations and the Council's Standing Orders. Each investment manager is required to carry out its investment activities within the appropriate regulatory requirements and as set out in the manager's Investment Management Agreement and the Fund's Investment Strategy Statement.

Although the management of the Fund's assets have been delegated to investment managers, the Pension Fund Committee has the ultimate responsibility for the investment strategy.

Performance and management activities are monitored by the Corporate Director of Resources and reported to the Pension Fund Committee on a quarterly basis.

**Scheme Discretions** – The Council has an agreed policy on the exercise of discretions available to it under the regulations. Discretions are considered and awarded on a case-by-case basis within the policies agreed. The Discretionary Payments Panel has been established to consider the award of discretionary benefits and, must have regard to the advice of the Corporate Director of Resources, and the Assistant Director of Assurance. Except where the discretionary payment is in respect of a Director or Head of Service.

Where appropriate the award of discretionary benefits is referred to the Council's Appointments Committee.

The Discretionary Payments Panel is made up of senior officers from the Finance, Legal and Human Resources Areas. Meetings are held on a monthly basis.

Each employer body participating in the Pension Fund is required to have a policy on the exercise of discretions and are responsible for the financial implications of awarding discretionary benefits.

**Financial Standing Orders** - Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure one of its officers has responsibility for this. In Redbridge the responsible officer is the Corporate Director of Resources. These standing orders set out the regulatory framework for financial administration within the Council setting out the duties of the Corporate Director of Resources and Directors and identifying the financial decisions which require Executive or Council approval.

The Corporate Director of Resources is responsible for ensuring that the Council's financial affairs are administered in a proper manner, in accordance with all statutory obligations, and in compliance with all professional codes of practice.

There are a number of standing orders in relation to the Pension Fund including the need for a triennial actuarial valuation.

Standing orders are reviewed as required by Legal Services.

**Annual Report and Accounts** - The Corporate Director of Resources is responsible for ensuring record keeping and accounts are maintained in a proper manner for the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pension Fund Committee and the Governance and Assurance Committee and is incorporated in the Statement of Accounts for the Council.

**Pension Fund** – The Council has set up the Pension Fund Committee to oversee the management of the Fund's investments. The Committee consists of five local Councillors who are appointed by the Council on an annual basis. All Members have full voting rights. The Corporate Director of Resources provides advice to Members of the Pension Fund Committee. In addition, advice is also provided by a number of pensions professional which includes the Fund's Actuary, an Independent Investment Adviser and StateStreet who provide performance measurement services.

Councillors, who are members of the pension scheme, may sit as a Member of the Committee. There are no representatives from scheme employer bodies or employee members on the Committee.

**Meetings** - The dates of meetings of the Pension Fund Committee are fixed in accordance with the constitution. The Committee meet a minimum of four times a year. The quarterly meetings are generally held at the offices of the Investment Managers. Extraordinary meetings are held when necessary. Whilst all meetings are open to the public, the discussion of some investment and fund management business is categorised as exempt from public disclosure under Part 3 of Part 1 of Schedule 12A to the Local Government Act 1972. On these occasions the public are excluded from the meeting whilst these matters are considered.

The Council will give at least five clear working days notice of any meeting by posting details of the meeting at the Ilford Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting.

### *Training and Development –*

One of the requirements of CIPFA's Principles for Investment Decision Making is that all Members of the Pension Fund Committee have sufficient knowledge to make investment decisions and challenge the advice that they are given. This requires the Pension Fund Committee to have gained a familiarity with pension issues through a programme of training and development.

The Pension Fund Committee receives training and development in accordance with the training programme which is set out in the Committee's Business Plan. Training is commissioned from a variety of sources such as:

- External courses
- Training courses delivered by Investment Consultants
- Training courses sponsored by the Investment Managers
- Training included as part of the service received from the Performance Measurement provider and Actuary
- National conferences

## **Public Policy Statements**

In addition to the Governance Compliance Statement, the regulations require the Authority publish a number of policy statements relating to pension fund and administrative issues, these are:

- An Investment Strategy Statement;
- A Funding Strategy Statement;
- A Communication Policy Statement; and
- The Exercise of Discretions under the Local Government Pension Scheme regulations.

Copies of these are available from the Council's web site [www.redbridge.gov.uk](http://www.redbridge.gov.uk) or via the contact points detailed below.

## **Contact Points**

Any enquiries in relation to this Governance Compliance Statement should be sent to the Corporate Director of Resources.

By email to [corporate.accounting@redbridge.gov.uk](mailto:corporate.accounting@redbridge.gov.uk)

By telephone to **020 8708 3021**, or

In writing to: **Corporate Accounting, Lynton House, 255 – 259 High Road, Ilford, Essex, IG1 1NN**

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## GOVERNANCE COMPLIANCE STATEMENT – INVESTMENT STRATEGY STATEMENT

The principles set out in this statement are based on the governance compliance statutory guidance published by the CLG. This guidance was issued to all administering authorities in England and Wales with statutory responsibilities under the LGPS Regulations. It deals with the compliance standards against which LGPS Committees are to measure themselves. Where compliance does not meet the published standard, there is a requirement under regulations to provide in the governance compliance statement the reasons for not complying.

### Principle A: Structure

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

**Compliant** - The responsibility for the management and investment of the Pension Fund is delegated to the Pension Fund Committee.

**(b) The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioners and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.**

**Not compliant** - There are currently no representative arrangements for employers or scheme members of the Fund under the current constitution.

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

**Not Compliant** - Not applicable as no secondary committee has been established.

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

**Not Compliant** - Not applicable as no secondary committee has been established.

### Principle B: Representation

- **That all key stakeholders are afforded the opportunity to be represented with the main or secondary committee structure. These include: -**
  - **Employing authorities (including non-scheme employers, e.g., admitted bodies);**
  - **Scheme members (including deferred and pensioner scheme members);**
  - **Where appropriate independent professional observers, and**
  - **Expert advisers (on an ad-hoc basis)**

**Partial compliance** - Under the current constitutional arrangements of the Authority, there are no representation arrangements for employers or scheme members of the Fund. The Corporate Director of Resources and other pension professionals that attend meetings provide advice as required.

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

**Compliant** - Minutes from the meetings are published in the intranet and are therefore accessible by interested parties. Scheme employers are consulted on occasions concerning some specific policy statements, such as the Funding Strategy Statement. There are no lay members on the Pension Fund Committee.

#### **Principle C: Selection and role of lay members**

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

**Compliant** - Members on the Pension Fund Committee are fully aware of their role on the Committee.

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

**Compliant** – In accordance with the Council’s Constitution, Members of the Pension Fund Committee are required to declare any interest relating to the pension fund at the start of each meeting that is then duly noted in the minutes of the meeting.

#### **Principle D: Voting**

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

**Compliant** - All Members of the Pension Fund Committee have full voting rights.

#### **Principle E: Training**

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

**Compliant** - The Pension Fund Committee receive training and development in conjunction with each of the key tasks as set out in the annual Business Plan. Training sessions are generally provided by the Investment Managers immediately after Committee meetings. Additional training is commissioned as and when required and is sourced from:

- External courses
- Training courses delivered by Investment Consultants
- Training courses sponsored by the Investment Managers

- 
- Training included as part of the service received from the Performance Measurement provider and Actuary
  - National conferences

Training and development is a legitimate expense that is chargeable to the Pension Fund.

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

**Compliant** - All members of the Pension Fund Committee have equal access to training.

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

**Compliant** – Pension Fund training is continually reviewed and a programme is prepared and agreed as part of the annual business plan.

### **Principle F: Meetings**

- **That an administering authority's main committee or committees meet at least quarterly.**

**Compliant** - The Pension Fund Committee hold a minimum of four quarterly meetings. Additional extraordinary meetings may be held where necessary.

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

**Not Compliant** - Not applicable as there is no secondary committee.

- **That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.**

**Partial Compliance** - Although there is no forum provided under the current governance arrangements, scheme employers have been consulted with regards to specific policy statements.

### **Principle G: Access**

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

**Compliant** - All Members of the Pension Fund Committee have equal access to committee papers and documents. Committee papers are also published on the intranet and are therefore accessible to all interested parties.

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## Principle H: Scope

**That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.**

**Partial Compliance** - The publication of the Pension Fund Annual Report that is presented to the Pension Fund Committee incorporates the wider scheme issues. The Corporate Director of Resources provides a quarterly update to Members of developments affecting the Pension Fund.

## Principle I: Publicity

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

**Partial Compliance** - The Pension Fund Governance Compliance Statement is published on the Council's website. Scheme members and employers are made aware of the governance compliance statement via the Pension Fund's Annual Report. The Council is seeking to identify further ways of consulting with other employers within the scheme.

London Borough of  
**Redbridge**



# **LONDON BOROUGH OF REDBRIDGE**

## **PENSION FUND**

### **INVESTMENT STRATEGY STATEMENT**

If you have any queries please contact Jan Grant in the first instance at [corporate.accounting@redbridge.gov.uk](mailto:corporate.accounting@redbridge.gov.uk) or 020 8708 3030 or by writing to her at:

Lynton House  
255 / 259 High Road  
Ilford  
Essex  
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## CONTENTS

	Page Number
Introduction	1 - 2
Investment Strategy	2 – 3
Risk Measurement & Management	4
Approach to Pooling	5
Social, Environment and Corporate Governance Policy	6
Policy of the Exercise of Rights Attached to Investment	7
Advice Taken	8
Appendix i Roles & Responsibilities	9
Appendix ii Myners Principles	10 - 13
Appendix iii Risk Register	14 - 19

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## **London Borough of Redbridge Pension Fund (“the Fund”)**

### **1. INTRODUCTION**

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees and their dependents. Eligible employees are mainly local government staff, except teachers who have separate pension arrangements, and a number of other bodies as permitted by Local Government Pension Scheme Regulations 2013 (and amendments thereto).

The scheme is operated by designated administering authorities - each maintains a pension fund and invests monies not immediately needed to pay benefits. The London Borough of Redbridge (“the Council”) is a designated administering authority. The governance arrangements for the Fund are set out in Appendix i.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) (and as amended) require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Fund’s investment objective is to minimise the long-term cost of funding commensurate with an appropriate level of risk and volatility. This objective will be achieved through the formulation of an appropriate investment strategy that takes into account the assumptions made within the actuarial valuation, which are linked to the liabilities of the Fund. The investment strategy seeks to achieve a real return of at least 3.5% per annum sub-divided between bond and equity type assets. Further details of the structure of the investment portfolio are set out in Section 2.

The strategic asset allocation of the Fund is currently broadly split 80% equity type investment (includes property) and 20% bonds although during periods of market volatility this may vary. External fund managers have been appointed to manage the Fund’s investments and each manager has a clear investment objective. The Fund invests in a wide range of assets with its fund managers in order to provide diversification and to spread the risk. Within Section 2 are details of the risks associated with the Fund and the measures in place to minimize these risks.

The Fund considers that collaborative working and the pooling of assets has the potential to provide services possibly at a lower cost. The Fund has therefore taken the opportunity to use framework agreements to procure advisory services when contracts are due for renewal. The Fund also seeks to pool its investments using the London Collective Investment Vehicle as opportunities arise. Further details on this pooling of investments are set out in Section 3.

As a public sector scheme, the Local Government Pension Scheme is frequently scrutinised on its investment decision processes. In response to a review by the Department of Communities and Local Government six principles, as a measure of best practice were proposed. The Fund’s compliance with these principles is set out at Appendix ii.

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This Investment Strategy Statement has been prepared in collaboration with the Fund's advisers. It is a living document which means that it is subject to revision as the investment markets change. It is also an important tool for the Fund as well as providing transparency in relation to how the Fund's investments are managed.

The Pension Fund Committee ("the Committee") reviews the Fund's compliance with the Investment Strategy Statement at least triennially or more frequently should any significant change occur.

## **2. INVESTMENT STRATEGY AND THE PROCESS FOR ENSURING SUITABILITY OF INVESTMENTS**

The Fund's primary investment aim is to ensure that over the long term the Fund will have sufficient assets to meet pension liabilities as they are due.

The power and duties of the Administering Authority to invest Fund monies are set out in Regulations. The Fund is required to invest any monies which are not immediately required to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investments and the advice of persons properly qualified on investment matters. During periods of market volatility, the Council may retain any surplus cash balance to invest in the money market in accordance with the Council's Treasury Management Strategy.

The Fund seeks to achieve this investment objective through the formulation of an appropriate investment strategy that:

- Maximises the return on investments whilst maintaining acceptable levels of risk.
- Recognises the short term volatility that can occur within the stock-markets with diversification across different asset classes.
- Recognises the assumptions made within the actuarial valuation that links to the liabilities of the Fund.
- Enable employer contribution rates to be kept as affordable and as stable as possible.

In broad terms, investments may be made in accordance with the regulations in equities, fixed interest and other bonds, and property, in both the UK and overseas markets and in accordance with the investment managers' agreements. The Fund has decided to access these types of investments via Pooled Unit Trusts. It is considered that with the size of the Fund in mind, investment in these vehicles leads to lower volatility of returns and a wider spread of investments than would be possible, in some cases, from direct investments in these sectors albeit the Fund will consider other vehicles or ways of accessing investments through Pooling as these become available. The Fund, however, does maintain a policy that applies a restriction as to the maximum percentage to which the Fund can invest as shown in the table below:

<b>LIMIT</b>	<b>RESTRICTION</b>
5%	Investment in entities connected with the Council
10%	Cash Deposit with the Local Authority
10%	Direct investment in any one company or entity
40%	In any single Pooled Unit Trust

## Asset Allocation

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset Class	Manager	Allocation %	Allowable Ranges %	Role(s) within the Strategy
Global Equities	SSgA	30	+/- 5	To generate positive long-term returns to meet the Fund's funding requirements. To achieve a return in-line with the various market indices
Global Equities	LCIV - Baillie Gifford	15	+/- 5	To generate positive long-term returns to meet the Fund's funding requirements. To outperform the MSCI AC World Index by 3%
Emerging Markets Equities	Schroders	5	+/- 5	To generate positive long-term returns to meet the Fund's funding requirements. To outperform the MSCI Emerging Market Index by 3%
Absolute Return	LCIV - Newton	20	+/- 5	To generate positive long-term returns to meet the Fund's funding requirements with lower volatility than the Fund's equity investment. To provide diversification by allowing the Fund to access a range of underlying asset classes to achieve a return of 4% above 1 month LIBOR (London Inter-Bank Offer Rate)
Bonds	Aberdeen Standard	20	+/- 5	To reduce volatility of the Fund's funding level and to provide protection against inflation increases.
Property	Schroders	10	+/- 5	To provide diversification and access to alternative drivers of return by investing in a diverse property portfolio. To outperform the relevant benchmark by 1%

The Fund's investments are currently held in pooled units as opposed to holding direct shares in individual companies. The investments with both Baillie Gifford and Newton are managed through the London CIV as the Fund seeks to pool its investments in accordance

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with Government requirements. Further details concerning the pooling arrangements are set out in Section 3.

Performance targets are set in relation to the benchmark and (where appropriate weighted indices specified). The investment managers' performance data is provided over a range of periods, including quarterly, annually and triennially by State Street Analytics. The Committee reviews the performance of the Fund and its Fund Managers at quarterly meetings against the respective benchmarks. The objective set for the Fund Managers are primarily over a rolling three-year periods.

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### **3. RISK MEASUREMENT AND MANAGEMENT**

As mentioned previously in Section 2, the gradual reduction of the funding deficit is a core objective of the Committee. The funding deficit is calculated by the Fund's Actuary and is influenced by both assets and liabilities. The funding position has implications for the setting of contribution rates for the various employers in the Fund.

The Fund is exposed to a number of risks that pose a threat to meeting the core objective, which includes funding risks, assets risks and operational risks. Details of these risks are set out in the Risk Register which is attached at Appendix iii.

In regards to the risks from the investments, the Committee has agreed an investment strategy that seeks to maintain an asset allocation that provides diversification, thereby spreading the risk whilst seeking to reduce the deficit over a period of time. The expectation is that this will offer protection due periods of market volatility where some assets will preserve capital better than others or in rising markets where some assets will perform better than others. Additional diversification is achieved by employing more than one investment manager.

The Investment Advisers, whilst constructing their review of the Investment Strategy, consider how the portfolio would perform in different situations and the possible outcomes. This then helps format the strategy to incorporate constraints on the maximum exposure to a specific asset class, sector, region or country. The equity market is invariable volatile and therefore the monitoring of the performance of the Fund and its Fund Managers is more focused towards the longer term than the short-term performance.

The Committee pays close attention to the risks that may arise through a mismatch between the Fund's assets and its liabilities as well as the risks that may arise from a lack of diversification of investments. For the time being, the Fund's long-term asset allocation will follow the benchmarks as previous specified and an equity-biased approach will be maintained. A higher weighting in the equity pooled unit trusts is held in the expectation that superior returns will be achieved in the long term. This reflects the need to keep the Council's cost of the Fund at reasonable levels, even at the risk of possible adverse and volatile returns in the shorter term.

In accordance with Regulations, the Council has created a Local Pension Board that consists of an independent Chair, two Representatives for the Employers in the Fund and two Representatives for the Members of the Fund. The role of the Local Pension Board is to secure compliance with the LGPS Regulations and to ensure good governance and administration of the Fund.

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#### **4. APPROACH TO ASSET POOLING**

The Fund considers that collaborative working and the pooling of assets has the potential to produce some efficiencies and possibly at a lower cost. The Fund has therefore taken the opportunity to use framework agreements to procure the services.

The Fund has been a supporter of the pooling of assets with London Collective Investment Vehicle (London CIV) since it was created in 2013 and contributed to the funding of set-up costs. In 2014 the Fund became a shareholder of the London CIV. Following the launch of funds under management by the London CIV, the Fund has invested 15% of the portfolio into the Alpha Growth Global Equity Fund managed by Baillie Gifford. In November 2016 the London CIV appointed Newton Asset Management to provide a Diversified Growth Fund which meant that the Fund's investments held directly with Newton were able to be transferred for management via the London CIV. This means that 35% of the Fund is currently invested via the London CIV.

The Fund regularly monitors the performance of underlying holdings at Committee meetings and also has regular meetings with the London CIV to ensure it is undertaking its duties as appointed.

In due course the London CIV expects to launch further products, including fixed income and property that will offer greater diversification. As these new options become available the Fund will consider these as part of its investment strategy, considering the cost savings available and the alignment of these options with the Fund's strategy.

The Fund does not currently hold any assets that it expects will not be suitable for pooling via the London CIV. This position will be reviewed at least every three years, with a report to be submitted to the Scheme Advisory Board on an annual basis providing an update on the progress of asset transfers to the London CIV.

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## **5. SOCIAL, ENVIRONMENTAL AND CORPORATE GOVERNANCE POLICY**

The Regulations require the Pension Fund to state its policy on the extent (if at all) to which social, environmental or ethical consideration are taken into account in the selection, retention and realisation of investments.

The Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the obligations that these place upon it. The Committee takes the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund. Therefore, the Committee holds a policy of non-interference with the day-to-day decision making of the investment managers.

However, the Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which may present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund manager to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.



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## 6. POLICY OF THE EXERCISE OF RIGHTS ATTACHING TO INVESTMENTS

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interest of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

Following a review of the Investment Managers' voting policies the Committee agreed that voting on both UK and Overseas holdings should be undertaken by the Investment Managers in accordance with their voting policies since the Fund's investments are made through pooled vehicles.

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

The Investment Managers provide quarterly reports that provide details of the voting activity together with details of the meetings held with companies as part of their engagement process.

The policies adopted by SSgA are published on their website at <https://www.ssga.com>

The Responsible Investment Policy for Newton is published on their website at <http://www.newton.co.uk/uk-institutional/thought-leadership/responsible-investment/>

Details of Schroders policies on responsible investing can be viewed at <http://www.schroders.com/en/about-us/corporate-responsibility/>

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders. The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which they invest.

The Fund is a member of the LAPFF which was set up in 1991 to promote the investment interests of local authority pension funds. LAPFF seeks to maximise the influence of the

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local authorities as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.

The Fund is also a member of the Pensions & Lifetime Savings Association (PLSA). The PLSA provide its members with examples of good stewardship practice and recommendations for key voting at the Annual General Meetings of their investee companies.

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## **7. ADVICE TAKEN**

The Fund has appointed Investment Advisers, Mercer Ltd, to provide guidance and advice to the Committee and Officers. In 2014/15 Mercers were commissioned to undertake a review of the Fund's Investment Strategy and their recommendations have been implemented as investment opportunities have arisen. Mercers will continue to monitor the investment strategy with Officers and the Committee to ensure that it continues to meet the Fund's objectives.

The Fund has also appointed Hymans Robertson as the Fund's Actuary to provide guidance and advice to the Committee and Officers. Hymans Robertson provides calculations on the funding position of the Fund which influences the decisions regarding the investment strategy.

The Fund has appointed State Street Analytics as Performance Monitoring Advisers to provide performance statistics on the Fund and its various fund managers. The results of the analysis are reported to the Committee at their quarterly meeting.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") also provides guidance to the Council on a range of matters including pensions to assist in complying with the LGPS Regulations.

## **ROLES AND RESPONSIBILITIES**

### **Pension Fund Committee**

The Committee consists of five local Councillors who are appointed by Council annually. The Council is responsible for the overall investment policy, strategy and operation of the Fund and its performance, including taking into account the profile of the Fund's liabilities. The Committee meets at least four times per annum.

#### **Advice**

The Committee obtains and considers advice from the Council's Corporate Director of Resources and from the Fund's Actuary, Investment Managers and independent Investment consultants are required.

#### **Management**

The management of the Pension Fund's investments has been delegated to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

### **Local Pension Board**

The Public Services Pension Act 2013 outlined new governance structures for public sector pension schemes, which included the requirement for the Council to establish a Local Pension Board by the 1 April 2015.

The role of the Pension Board covers all aspects of governance and administration of the LGPS, including funding and investments. The Pension Board does not make decisions or carry out duties that are the responsibility of the Administering Authority and those of the Pension Fund Committee.

The Pension Board comprises of two employer representatives, two scheme member representatives and one independent member. No officer or elected member of the Council who is responsible for the discharge of any function under the pension regulations (apart from those of the Local Pension Board and the national Scheme Advisory Board may be a member of this Council's Local Pension Board.

The Pension Board meets four times a year.

## MYNERS PRINCIPLES OF INVESTMENT PRACTICE

	Description of Principle	Redbridge Position	Further Development Opportunity
1	<p><b>Effective Decision Making</b> Administering Authorities should ensure that decisions are taken by persons or organisations with skills, knowledge, advice and resources necessary to take them effectively and monitor their implications</p>	<p><b>Compliant</b> Elected members have a fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS. Functions can be delegated to officers but they retain overall responsibility for the management of the fund and its investment strategy and the individual decisions about investments.</p> <p>Under the Council's Constitution investment functions for the Pension Fund has been delegated to the Pension Fund Committee. This Committee act as "quasi trustees". The Committee comprises of five experienced Councillors who are advised by the Corporate Director of Resources.</p> <p>The Fund's Actuary and Investment Adviser also provide advice to the Committee. Training is provided as required on a range of topics to ensure that the Committee members are able to make informed decisions and to be able to challenge the advice being provided.</p>	<p>Members and Officers have developed a training programme as part of the business plan which seeks to increase the knowledge and skills of all those responsible for pension matters.</p>
2	<p><b>Clear Objectives</b> An overall investment objective(s) should set out for the scheme that takes account of the scheme's liabilities, the potential impact on local tax-payers, the strength of the sponsor</p>	<p><b>Compliant</b> The Committee receives an annual presentation from the Fund's Actuary on the funding position and changes affecting the Fund's liabilities. The Committee also receives an annual presentation from the Performance</p>	

	<b>Description of Principle</b>	<b>Redbridge Position</b>	<b>Further Development Opportunity</b>
	covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	<p>Monitoring Advisors that reports on the individual managers as well as the Fund as a whole.</p> <p>The Committee also receives quarterly reports as well as regular presentations from the Investment Managers on the performance of the Fund against their respective benchmarks. The Fund's Advisers periodically provide reports to the Pension Fund Committee reviewing the investment strategy to ensure that the strategy continues to achieve the Fund's objectives as well as providing advice on changes to the mix of asset classes.</p>	
<b>3</b>	<p><b>Risks and Liabilities</b></p> <p>In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p><b>Compliant</b></p> <p>The Triennial Valuation exercise looks in detail at each participating employer's liability and is used to inform the setting of employers' contribution rates, as well as informing the investment strategy and objectives of the Fund.</p> <p>The Committee reviews the investment strategy in consultation with the Fund's Actuary, to ensure that the strategy reflects the profile of the Fund's liabilities whilst seeking to achieve stable contribution rates for the various participating employers.</p> <p>New Admission Agreements are not granted without the presence of a suitable guarantor.</p>	
<b>4</b>	<b>Performance Assessment</b>	<b>Compliant</b>	

	<b>Description of Principle</b>	<b>Redbridge Position</b>	<b>Further Development Opportunity</b>
	<p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</p> <p>Administrating authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>Periodically reviews are undertaken to determine whether the recommendations of the advisers in respect of the investment strategy have added value to the Fund.</p> <p>The investment advisory contract is periodically reviewed and in 2013 the Fund signed up to the National Framework for Investment Advisory Services.</p> <p>The contract for Actuarial services is subject to a separate tender process.</p> <p>The performance of the Investment Managers and assets held are monitored on a quarterly basis but the emphasis is on the long-term investment objective.</p> <p>A review of the effectiveness of the investment strategy introduced in May 2006 has been undertaken as part of the Annual Business Plan. Whilst it demonstrated that changes in strategy had added value to the fund, in order to ensure that the strategy continues to meet the Fund's objectives some changes to the asset allocation and the managers were required. A revised strategy was agreed and implementation has been undertaken as investment opportunities arise. Following the appointment of new Independent Investment Advisers, a review of the investment strategy has been undertaken and the changes proposed have now been implemented.</p> <p>An Annual Report together with an Annual Review along with other publications provide details to scheme members and employers of the activities of the Pension</p>	<p>Development in line with changes in legislation concerning the governance of pension schemes. These changes seek to strengthen monitoring, decision-making and performance.</p>

	<b>Description of Principle</b>	<b>Redbridge Position</b>	<b>Further Development Opportunity</b>
		Fund and the Committee along with the decisions that have been taken throughout the year.	
<b>5</b>	<p><b>Responsible Ownership</b> Administrating Authorities should:</p> <ul style="list-style-type: none"> <li>• Adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Investment Strategy Statement on the responsibility of shareholders and agents</li> <li>• Include a statement of their policy on responsible ownership should be included in the Investment Strategy Statement</li> <li>• Report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p><b>Partial Compliance</b></p> <p>The Committee would encourage, rather than insist that the investment managers adopt the Institutional Shareholders' Committee Investment Strategy Statement. The Fund Managers have clear policies with regards to corporate governance which have been reviewed and considered appropriate for the Redbridge Fund.</p> <p>The Committee has an approved policy on voting which places responsibility for voting on the Fund Managers in accordance with their policies. Details of the voting activity by the Fund Managers are presented on a quarterly basis to the Pension Fund Committee.</p> <p>All of the Fund's Investment Managers are signatories to the UK Stewardship Code.</p>	



6	<p><b>Transparency and Reporting</b> Administrating authorities should:</p> <ul style="list-style-type: none"> <li>• Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</li> <li>• Provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p><b>Compliant</b> Redbridge maintains a Communication Policy that sets out how the Fund communicates with all stakeholders in the Fund.</p> <p>All policy statements relating to the Pension Fund are published on the Council’s website. The Pension Fund produces an Annual Report which includes the Annual Accounts that is published on the website that provides full details of the activities of the Fund, including details of the various policy statements and the activities of the Committee.</p> <p>The Committee meetings are open to the public and agendas, papers and minutes are available on the Council’s website – <a href="http://www.redbridge.gov.uk">www.redbridge.gov.uk</a></p> <p><u>In accordance with Regulations a Local Pension Board has been set up which reviews the administration and management of the Pension Fund. The Local Pension Board consists of equal number of representatives from employees and employers.</u></p>	
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## TYPES OF RISK

The Council has an active risk management programme in place. This measures that is has in place to control key risks are summarised under the following categories – financial, demographic, regulatory and governance.

### FINANCIAL RISKS

Financial Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Inappropriate long-term investment strategy	L	H	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.  Consider measuring performance and setting managers' targets relative to absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	M	H	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.  Analyse progress at three yearly valuations for all employers.  Inter-valuation roll-forward of liabilities between formal valuations at whole fund/employer level, monitored on an annual basis against returns.
Fall in risk-free returns on Government bonds leading to rise in value placed on liabilities	M	H	Inter-valuation monitoring, as above.  Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark over medium term	M	M	Short term (quarterly) investment monitoring to analyse market performance and active managers relative to their index benchmark.  Supplement with an analysis of absolute returns against those underpinning the valuation.

Financial Risks (continued)	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated	L	M	<p>Focus actuarial valuation process on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in index-linked bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and will be advised of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Insufficient funds to meet liabilities as they fall	L	M	Cash flow is monitored monthly and remains with a net inflow position for the foreseeable future
Effect of possible increase in employer's contribution rate on service delivery and admission / scheduled bodies	M	M	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rises.</p>
Orphaned employers give rise to added costs for the Fund	L	M	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.</p>

## Demographic Risks

Demographic risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Period of paying pensions lengthening	M	H	<p>Set realistic longevity assumptions and consider some allowance for future increases in life expectancy.</p> <p>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees	M	H	<p>Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies</p>
Deteriorating patterns of early retirements	M	M	<p>Employers are charged the extra capital cost of non ill health retirements on each decision.</p> <p>Employer ill health retirement experience will be monitored between valuations.</p>
Reductions in payroll causing insufficient deficit recovery payments	M	M	<p>In many cases this may not be sufficient cause for concern and will be reflected at the next formal valuation. However, there are protections where there is concern, such as:</p> <ul style="list-style-type: none"> <li>• Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases</li> <li>• For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</li> </ul>

<b>Demographic risks (continued)</b>	<b>Probability (H/M/L)</b>	<b>Impact (H/M/L)</b>	<b>Summary of Control Mechanisms</b>
A company admitted to the Fund as an admission body may become financially unviable	L	L	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover the financial risks involved.
Ill health retirements significantly more than anticipated	L	M	Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built in. Monitoring the effect of the change in the regulations resulting in assessing ill health retirements in tiers. Arrangements are available for employers to take out insurance cover with an external provider.

#### Regulatory Risks

<b>Regulatory risks</b>	<b>Probability (H/M/L)</b>	<b>Impact (H/M/L)</b>	<b>Summary of Control Mechanisms</b>
Changes to local government pension scheme regulations	H	M	Monitor the potential creation of additional liabilities and administrative difficulties for employers and London Borough of Redbridge.
Changes to national pension requirements and / or Inland Revenue Rules	M	M	Consider all consultation papers issued by the CLG and comment where appropriate. Consult employers where appropriate.

Time, cost and/or reputational risks associated with any CLG intervention triggered by the section 13 analysis (see <a href="#">section 5</a> ).	L	M	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
London Borough of Redbridge failing to meet/comply with the code of practice of the pension regulator and recommendations by the scheme advisory board	L	M	Monitor the Pension Regulator's Code of Practice Consider all papers issued by the Scheme Advisory Board. The Local Pension Board has an oversight role in administration matters.

## GOVERNANCE RISKS

Governance Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
London Borough of Redbridge unaware of structural changes in an employer's membership	L	L	Monitor membership movements on a quarterly basis. Review the rates and adjustments certificate to increase an employer's contributions (under regulation 64) between triennial valuations.
London Borough of Redbridge not advised of an employer closing to new entrants	L	L	Deficit contributions expressed as monetary amounts rather than percentage of pensionable pay.
Actuarial or investment advice is not sought, or is not heeded, or provide to be insufficient in some way	L	M	The Council maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Governance Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
London Borough of Redbridge failing to commission the fund actuary to carry out a termination valuation for a departing admission body and losing the opportunity to call in a deficit	L	M	<p>Monitor contribution payments to trigger notification.</p> <p>Operate a diary system to monitor short life or term bodies.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond	M	M	<p>The risk is mitigated by a prudent admissions policy which:</p> <ul style="list-style-type: none"> <li>• Sets out the employer obligations clearly</li> <li>• Seeks a funding guarantee from another scheme employer, external body, or government.</li> <li>• Encourages the employer to take independent actuarial advice.</li> <li>• Requires vetting of financial standing.</li> <li>• Periodically review value of bond where appropriate.</li> </ul>



LONDON BOROUGH OF REDBRIDGE

PENSION FUND

FUNDING STRATEGY STATEMENT



# CONTENTS

## Draft Funding Strategy Statement

	Page
1. Introduction	1
2. Basic Funding Issues	4
3. Calculating contributions for individual employers	8
4. Funding Strategy and links to investment strategy	16
5. Strategy Reporting	18

## Appendices

Appendix A – Regulatory framework	20
Appendix B – Responsibilities for key parties	22
Appendix C – Key risks and controls	24
Appendix D – Actuarial Assumptions	30
Appendix E – Glossary	33

The Funding Strategy Statement is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

If you have any queries please contact Jan Grant in the first instance at [corporate.accounting@redbridge.gov.uk](mailto:corporate.accounting@redbridge.gov.uk) or 020 8708 3030 or by writing to her at:

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# 1 Introduction

## 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Redbridge Pension Fund (“the Fund”), which is administered by London Borough of Redbridge Council, (“the Council”).

It has been prepared by the Council in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

This depends who you are:

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

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

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

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

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

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

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

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

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

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

## 2 Basic Funding issues

The Fund's Actuary is required to undertake a full valuation of the Pension Fund every three years. The latest valuation exercise was undertaken as at 31 March 2016.

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

In essence this is a three-step process:

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

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

Employer contributions are normally made up of two elements:

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

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

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

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

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

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who

are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally contractors that provide a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

#### **2.4 How does the measured contribution rate vary for different employers?**

All three steps above are considered when setting contributions (more details are given in [Section 3](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **deficit recovery period** required is, in broad terms, the length of time over which any deficit is to be recovered. A shorter timescale will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower timescale if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that timescale will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and viceversa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

#### **2.5 How is a deficit (or surplus) calculated?**

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Council the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

## **2.6 How does the Fund recognise that contribution levels can affect the Council and employer service provision, and Council Tax?**

The Council and the Fund's actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced Council spending, which in turn could affect the resources available for Council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, generally through contracting Council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to its members, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice. Such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years. The Council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to the various employers, the Council takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant timescale.

Where the Council has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund may permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer deficit recovery period relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).



### 3 Calculating contributions for individual Employers

#### 3.1 General comments

A key challenge for the Council is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund’s three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? Higher likelihoods can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

The Council recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Council may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

Below (3.2) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.3 onwards sets out various other funding issues which apply to all employers.

#### 3.2 The different approaches used for different employers

Type of Employer	Council	Colleges	Academies	Transferee Admission Bodies
Funding Target Basis used (more details listed in Appendix E)	Ongoing, assumes long-term Fund participation			Ongoing, assumes fixed contract term in the Fund
Primary Rate Approach	Refer to Appendix D - D2			
Stablised contribution rate	Yes	No	No	No
Deficit Recovery Period	17 Years	17 Years	17 Years	Outstanding contract term
Secondary Rate	% of payroll	% of payroll	% of payroll	% of pay or fixed sum payment
Treatment of Surplus	Covered by stablisation arrangement	Reflected in secondary rate		Reduce contributions by spreading surplus over the remaining contract term

## Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Council, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Council (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Council
Max contribution increase	+1% of pay
Max contribution decrease	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020 when it is possible that contribution increases will be required. However the Council reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

### Note (a) (Maximum timescale)

The maximum timescale starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Council would normally expect the same or a reducing period to be used at successive triennial valuations, but would reserve the right to propose alternative timescales, for example where there were no new entrants.

### Note (b) (Primary rate)

**The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.**

### **Note (b) (Secondary rate)**

The secondary rate is calculated as the balance over and above the Primary rate such that the total is projected to meeting the required funding target relating to combined past and future service benefits within the determined timescale.

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Council reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### **Note (c) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant timescale over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the timescale, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### **Note (d) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Council.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

### **Note (e) (New Academy conversions)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of

a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial notional asset share from the ceding Council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding Council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the Council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies are subject to change to reflect any amendments to CLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

#### **Note (f) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies (TABs): For all TABs, the security must be to the satisfaction of the Council as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

This approach reduces the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

#### **Note (g) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as the Council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for

LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial notional asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

Generally option ii) is the preferred approach however the Council is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

## Note (h) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Council may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund. Although in respect of Open schemes, a recent LGPS Regulation changes means that the Council has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Council will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Council must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix D](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread their payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Council may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.3 Pooled contributions**

From time to time, with the advice of the Actuary, the Council may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

### **3.4 Additional flexibility in return for added security**

The Council may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Council.

Such flexibility includes a reduced rate of contribution, an extended timescale, or permission to join a pool with another body (e.g. the Council).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.5 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. With the agreement of the Council the payment may be spread. Transferee Admission Bodies are not generally permitted to spread early retirement contributions.

### **3.6 Ill health early retirement costs**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

Ill health allowance for Scheduled Bodies and Admitted Bodies is dependent on their agreement terms with the Council. The Fund monitors each employer's ill health experience on an ongoing basis for those employers with an ill health allowance. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Those employers without an ill health allowance are required to meet the additional costs at the time of the ill health retirement. Details will be included in each separate Admission Agreement.

### **3.7 External ill health insurance**

If an employer provides satisfactory evidence to the Council of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Council notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### **3.8 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Council may need to seek legal advice in such cases, as the employer would have no contributing members.



## **4 Funding strategy and links to investment strategy**

### **4.1 What is the Fund's investment strategy?**

The Fund has built up assets over the years, and continues to receive contributions and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Council, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement (formerly the Statement of Investment Principles). This document is published on the Council's website.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### **4.2 What is the link between funding strategy and investment strategy?**

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### **4.3 How does the funding strategy reflect the Fund's investment strategy?**

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix D) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### **4.4 How does this differ for a large stable employer?**

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Council's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

## **5 Statutory reporting and comparison to other LGPS Funds**

### **5.1 Purpose**

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (CLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional CLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### **5.2 Solvency**

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### **5.3 Long Term Cost Efficiency**

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, CLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 17 years.

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the current rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

CLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Council when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Council consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2017 for comment;
- b) Comments were requested within 30 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, in April 2017.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [www.redbridge.gov.uk](http://www.redbridge.gov.uk)
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives that are members of the Local Pension Board;

- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, future changes to the FSS would need agreement by the Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Compliance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.redbridge.gov.uk](http://www.redbridge.gov.uk)

## Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Council should:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Council and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (Statement of Investment Principles) (ISS/SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and an ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Council promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

**B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Council, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Council in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Council.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Council on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Council's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.



## C1. TYPES OF RISK

The Council has an active risk management programme in place. This measures that is has in place to control key risks are summarised under the following categories – financial, demographic, regulatory and governance.

### C2. FINANCIAL RISKS

Financial Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Inappropriate long-term investment strategy	L	H	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.  Consider measuring performance and setting managers' targets relative to absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	M	H	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.  Analyse progress at three yearly valuations for all employers.  Inter-valuation roll-forward of liabilities between formal valuations at whole fund/employer level, monitored on an annual basis against returns.
Fall in risk-free returns on Government bonds leading to rise in value placed on liabilities	M	H	Inter-valuation monitoring, as above.  Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark over medium term	M	M	Short term (quarterly) investment monitoring to analyse market performance and active managers relative to their index benchmark.  Supplement with an analysis of absolute returns against those under-pinning the valuation.

Financial Risks (continued)	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated	L	M	<p>Focus actuarial valuation process on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in index-linked bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and will be advised of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Insufficient funds to meet liabilities as they fall	L	M	Cash flow is monitored monthly and remains with a net inflow position for the foreseeable future
Effect of possible increase in employer's contribution rate on service delivery and admission / scheduled bodies	M	M	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rises.</p>
Orphaned employers give rise to added costs for the Fund	L	M	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.</p>

## C3.

## Demographic Risks

Demographic risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Period of paying pensions lengthening	M	H	Set realistic longevity assumptions and consider some allowance for future increases in life expectancy.  Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees	M	H	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies
Deteriorating patterns of early retirements	M	M	Employers are charged the extra capital cost of non ill health retirements on each decision.  Employer ill health retirement experience will be monitored between valuations.
Reductions in payroll causing insufficient deficit recovery payments	M	M	In many cases this may not be sufficient cause for concern and will be reflected at the next formal valuation. However, there are protections where there is concern, such as: <ul style="list-style-type: none"> <li>• Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases</li> <li>• For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</li> </ul>

Demographic risks (continued)	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
A company admitted to the Fund as an admission body may become financially unviable	L	L	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover the financial risks involved.
Ill health retirements significantly more than anticipated	L	M	Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built in. Monitoring the effect of the change in the regulations resulting in assessing ill health retirements in tiers. Arrangements are available for employers to take out insurance cover with an external provider.

C4.

**Regulatory Risks**

Regulatory risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
Changes to local government pension scheme regulations	H	M	Monitor the potential creation of additional liabilities and administrative difficulties for employers and London Borough of Redbridge.
Changes to national pension requirements and / or Inland Revenue Rules	M	M	Consider all consultation papers issued by the CLG and comment where appropriate. Consult employers where appropriate.

Time, cost and/or reputational risks associated with any CLG intervention triggered by the section 13 analysis (see <a href="#">section 5</a> ).	L	M	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
London Borough of Redbridge failing to meet/comply with the code of practice of the pension regulator and recommendations by the scheme advisory board	L	M	Monitor the Pension Regulator's Code of Practice Consider all papers issued by the Scheme Advisory Board. The Local Pension Board has an oversight role in administration matters.

## C5. GOVERNANCE RISKS

Governance Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
London Borough of Redbridge unaware of structural changes in an employer's membership	L	L	Monitor membership movements on a quarterly basis. Review the rates and adjustments certificate to increase an employer's contributions (under regulation 64) between triennial valuations.
London Borough of Redbridge not advised of an employer closing to new entrants	L	L	Deficit contributions expressed as monetary amounts rather than percentage of pensionable pay.
Actuarial or investment advice is not sought, or is not heeded, or provide to be insufficient in some way	L	M	The Council maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Governance Risks	Probability (H/M/L)	Impact (H/M/L)	Summary of Control Mechanisms
London Borough of Redbridge failing to commission the fund actuary to carry out a termination valuation for a departing admission body and losing the opportunity to call in a deficit	L	M	<p>Monitor contribution payments to trigger notification.</p> <p>Operate a diary system to monitor short life or term bodies.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond	M	M	<p>The risk is mitigated by a prudent admissions policy which:</p> <ul style="list-style-type: none"> <li>• Sets out the employer obligations clearly</li> <li>• Seeks a funding guarantee from another scheme employer, external body, or government.</li> <li>• Encourages the employer to take independent actuarial advice.</li> <li>• Requires vetting of financial standing.</li> <li>• Periodically review value of bond where appropriate.</li> </ul>

## **Appendix D – Actuarial assumptions**

### **D1 What are the actuarial assumptions?**

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **D2 What basis is used by the Fund?**

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

### **D3 What assumptions are made in the ongoing basis?**

#### **a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

#### **b) Salary growth**

The pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS

funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be in line with the consumer prices index (CPI).

### **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

### **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

### **e) General**

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.



## Appendix E – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>the funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s <b>covenant</b> to be as strong as its guarantor’s.

<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.