

DRAFT

LONDON BOROUGH OF

REDBRIDGE

PENSION FUND

ANNUAL REPORT

2020/21

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EXECUTIVE OVERVIEW

Welcome to the Pension Fund Annual Report for 2020/21.



Councillor Norman
Chair of the Pension Fund Committee

When I wrote the Executive Overview for last year's annual report I had hoped that when writing this year's overview that we would be back to living normal lives, albeit maybe a "new normal" life. We are not quite there yet but at least for the members of the Pension Fund Committee, we have seen the return of the live meetings being held in the Town Hall as opposed to virtual ones.

As I reported last year, the effect of the pandemic to the stock markets resulted in extreme volatility which resulted in a fall in the value of the Fund's assets at the end of March 2020, however since then the markets have been fairly buoyant which resulted in the value of the Fund increasing by 26.6% by the end of this financial year. Whilst it is good news that the stock markets have recovered, the tragedy of this pandemic is the affect that it has had on the membership of the Fund, particularly the number of deaths that the pension administration team have had to deal with and new cases are still being reported to them. This has put a lot of strain on the administration team and I would applaud them for dealing with these cases as sympathetically as they have.

During 2020/21 the Fund made good progress towards achieving its investment strategy as opportunities started to arise for the fund managers to invest our money into, for instance, infrastructure projects. This "draw-down" process of investing takes time to achieve the strategic asset allocation however our focus is on ensuring that these investments will produce the level of return needed over the long term. We therefore look to the Fund Managers to ensure that they are buying appropriate assets for the portfolio.

I believe that climate change is currently one of the biggest challenges facing the world as can be seen by the recent devastating fires and flooding the world, so individuals and organisations looking at ways to reduce their impact on the environment. The Redbridge Pension Fund is no exception and continues to be a member of the Local Authority Pension Fund Forum (LAPFF). This Forum works alongside other organisations to tackle, amongst other things, climate change by encouraging companies to bring about positive changes to their working practices. The Committee receives regular updates on the activities of the LAPFF and I hope that as investors we are able to continue to use our influence to make change happen

More details of the activities of the Committee can be found on pages 7 and 8.

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 2019/20 the Members of the Committee were:

Cllr. E. Norman (Chair)
Cllr. S. Bain (Vice Chair)
Cllr. R. Hatfull
Cllr. S. Islam
Cllr. P. Canal

Other Professional Advisers and service providers

Actuary

Hymans Robertson

Investment Consultant

Mercer Ltd.

Pool Operator

London Collective Investment Vehicle (LCIV)

Investment Managers - Direct

Schroder Investment Management
Aberdeen Standard Investment Management

Investment Managers via the LCIV

Baillie Gifford
Legal & General Investment Management Ltd
Stepstone
Aviva

AVC Providers

Clerical Medical
Utmost Pensions (formerly Equitable Life)
Standard Life

Custodian

Northern Trust

Auditors

EY LLP

Performance Measurement

Northern Trust

Solicitors

In House and Eversheds

Scheme Administrators

In House

Pension Fund Bankers

National Westminster Bank plc

Shareholder Services

Institutional Protection Services

Subscribers to:

Local Authority Pension Fund Forum (LAPFF)

Pensions and Lifetime Savings Association (PLSA)

CONTACT DETAILS

Registered Address	Corporate Director of Resources London Borough of Redbridge Lynton House 255 – 259 High Road Ilford Essex IG1 1NN
Pension Enquiries	Maureen Jones pensions(lgps)admin@redbridge.gov.uk 020 8708 3236
Investments Enquiries	corporate.accounting@redbridge.gov.uk

Redbridge Pension Fund Website:

<http://www.yourpension.org.uk/handr/Redbridge-Publications/Redbridge-Fund-Members.aspx>

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 2020

Eligibility - Employees with a contract of 3 months and more and Casual employees who elect to join.

Member Contribution	<ul style="list-style-type: none"> • Ranging from 5.5% - 12.5% depending on salary.
Normal Retirement Age	<ul style="list-style-type: none"> • Equal to individual member's State Pension.
Early Retirement	<ul style="list-style-type: none"> • Immediate payment of unreduced benefits on efficiency/redundancy grounds from the age of 55; • Voluntary retirement from age 55 with reductions for early payment including deferred into payment without employers consent needed. • Flexible retirement with employer consent from the age of 55.
Ill Health Retirement	<ul style="list-style-type: none"> • 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. • Tier 1 – Immediate payment with service enhanced to Normal Pension Age; • Tier 2 – Immediate payment with service enhancements of 25% of service to Normal Pension Age; • Tier 3 – Temporary payment of pension for up to 3 years.
Pensions	<ul style="list-style-type: none"> • 1/49th of salary for each year of membership from 01/04/14; • Service between 01/04/08 and 31/03/14 will be calculated at 1/60th; • Service prior to 01/04/08 will be calculated at 1/80th plus lump sum of 3/80th
Tax Free Lump Sum	<ul style="list-style-type: none"> • Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.

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

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 and are reviewed annually.

Pay Bands	Contribution Rate
Up to £14,600	5.5%
£14,601 - £22,900	5.8%
£22,901 - £37,200	6.5%
£37,201 - £47,100	6.8%
£47,101 - £65,900	8.5%
£65,901 - £93,400	9.9%
£93,401 - £110,000	10.5%
£110,001 - £165,000	11.4%
More than £165,000	12.5%

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 will also be informed of 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 training from various professional advisers on topical issues. The Members of the Committee have full voting rights.

Pension Fund Committee Members as at 31 March 2021



Councillor Bain

Labour

(Vice Chair)

Councillor Canal

Conservative

Councillor Hatfull

Labour

Councillor Islam

Labour

Councillor Norman

Labour

(Chair)

Substitute Members: Councillors Bellwood, Donovan, Emmett and Morgan-Thomas(Labour) and Councillor Huggett (Conservative).

Meetings - The Pension Fund Committee held four meetings during 2020/21 for Pension Fund matters. The table overleaf shows the attendance at the meetings by the Committee members:

Table 2 – Attendance at Committee Meetings

Councillor	Number of Meetings	Meetings Attended
Councillor Norman	4	4
Councillor Bain	4	3
Councillor Hatfull	4	4
Councillor Islam	4	4
Councillor Canal	4	3
Substitute Councillors	4	2

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 plan 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 2020/21 were as follows:

- Covid – the impact on funding and the risks associated;
- Policy Statement disclosures and requirements;
- Property Investing;
- Carbon Footprinting the Pension Fund
- Review of the Investment Strategy
- Further Changes to the Annual Tax Allowance and Voluntary Pay Schemes.

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 4

Local Pension Board

The Local Pension Board, comprising of two employee member representatives, two employer member representatives and an independent Chair, has held three meetings this year and during these meetings they have reviewed the Pension Fund Annual Report & Accounts, the policy for dealing with breaches of the Regulations, Internal Controls Guidance and the Management of Risk. The Local Pension Board has also monitored the performance of the Fund’s Investment, and the Pension Administration Function’s Performance Indicators. The Board also received updates on topical information.

Representatives of the Local Pension Board have attended a number of 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. The report is item 4 of the Agenda, and a link to the 2019/20 Report is provided below:

<http://moderngov.redbridge.gov.uk/ieListDocuments.aspx?CId=742&MIId=8106>

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 Operational Director 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 5.

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 overleaf in Table 3.

Table 3 Strategic asset allocation

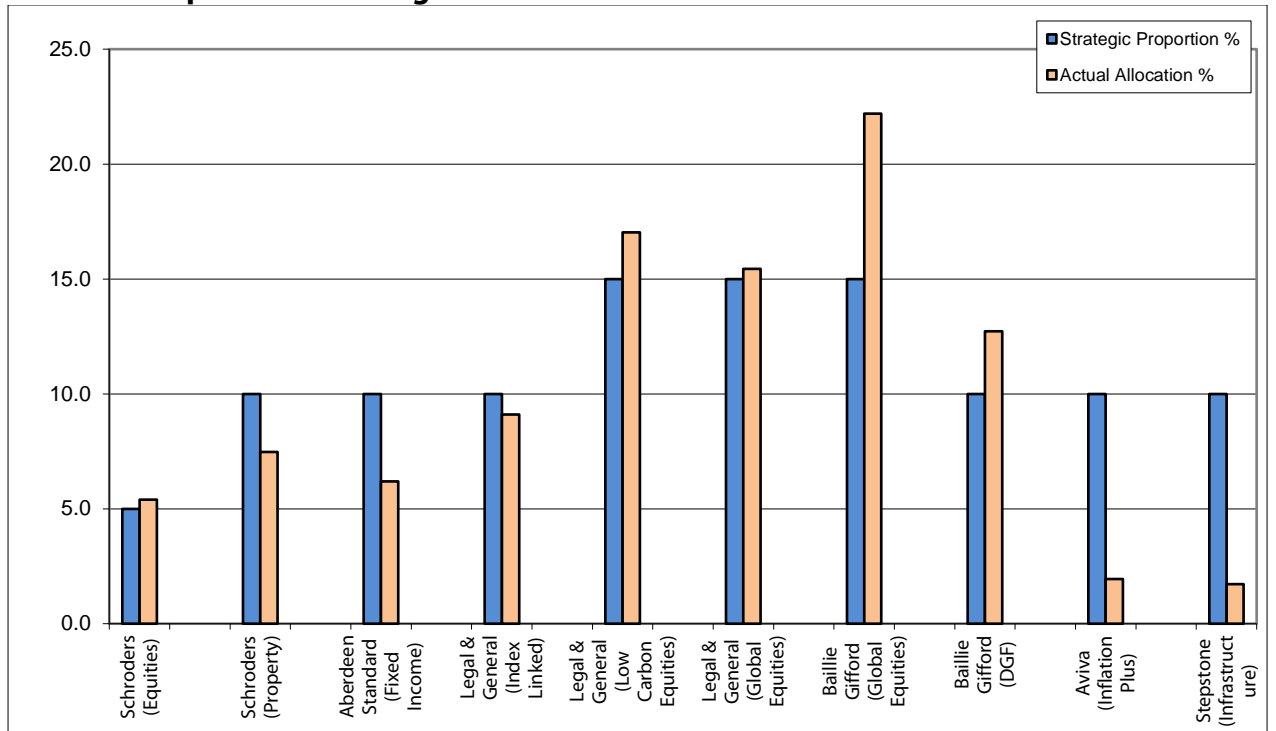
Manager	Strategic Proportion %	Actual Allocation %	Mandate	Target
Direct Investment Mandates				
Schroders (Equities)	5.0	5.4	Emerging Markets Equities	To out-perform the MSCI Emerging Markets index by 3%
Schroders (Property)	10.0	7.5	Property	Outperform the IPD All Balanced Property Fund Index by 1%
Aberdeen Standard *	0.0	6.2	Bonds	To outperform 3 month LIBOR by 3%
TOTAL	15.0	19.8		
Investments through London CIV				
Legal & General	15.0	15.4	Global Equities	Track the various market indices
Legal & General	15.0	17.0	Global Equities - Low Carbon	To perform in line with the MSCI Low Carbon Target Index
Legal & General	10.0	9.1	Index Linked Gilts	To perform in line with the FTSE UK Index Linked Index
Baillie Gifford	15.0	22.2	Global Equities	To out-perform the MSCI AC World Index by 3%
Baillie Gifford DGF	10.0	12.7	Unconstrained Global	Absolute return of 4% above LIBOR
Aviva	10.0	2.0	Inflation Plus Fund	
Stepstone	10.0	1.7	Infrastructure	Net return of 8% per annum
TOTAL	85.0	80.2		
Cash held		0.8		Cash balances held by LBR

-MSCI – Morgan Stanley Capital International

* Following a revised strategy it was decided to disinvest from the Aberdeen Standard global bond fund and invest into the Inflation Plus Fund. This transfer will be undertaken over time as opportunities arise and drawdown payments are made.

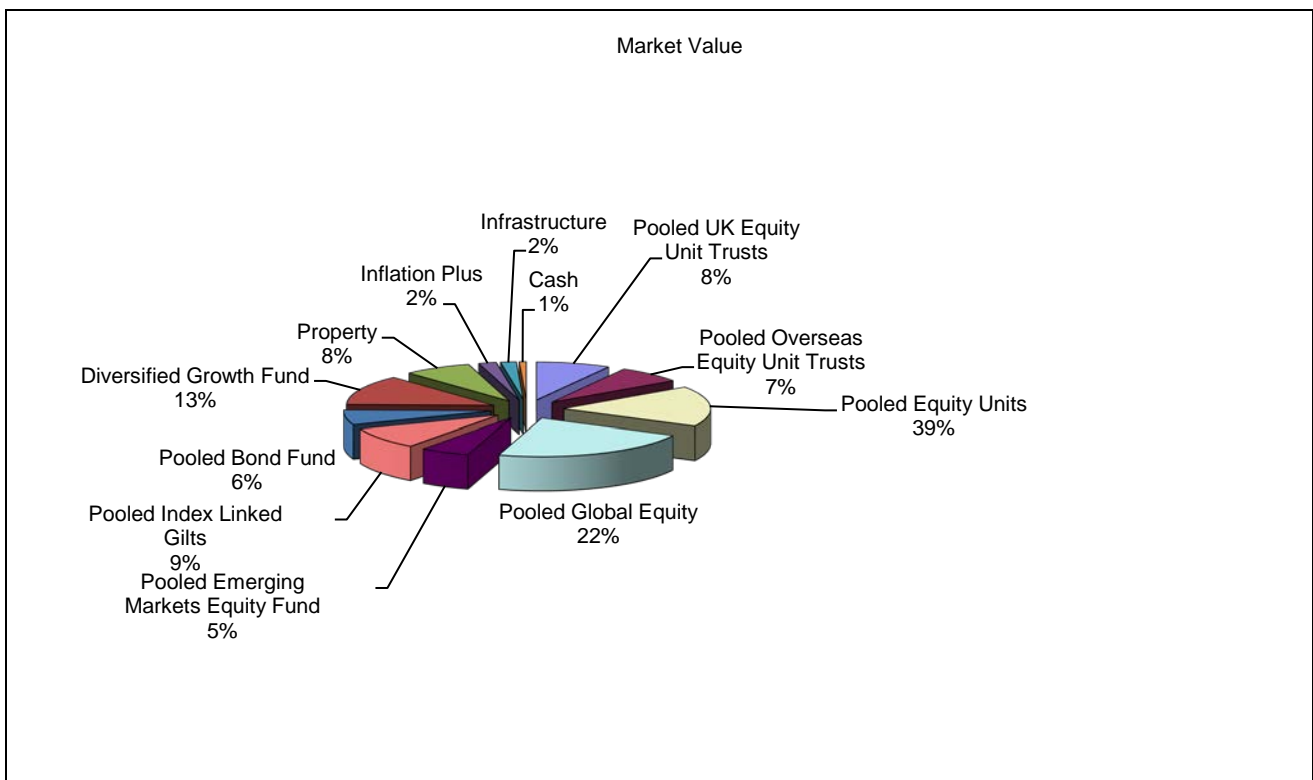
In addition to these mandates, the Council invests residual cash balances that are held on behalf of the Pension Fund, prior to being used to pay pension benefits. The investment strategy incorporates a 5% flexibility variance between the strategic allocation and the actual allocation to allow for fluctuations in market conditions. Chart 1 overleaf compares the strategic allocation with the actual allocation at year end.

Chart 1 - Compares the Strategic Asset Allocation with the Actual Allocation



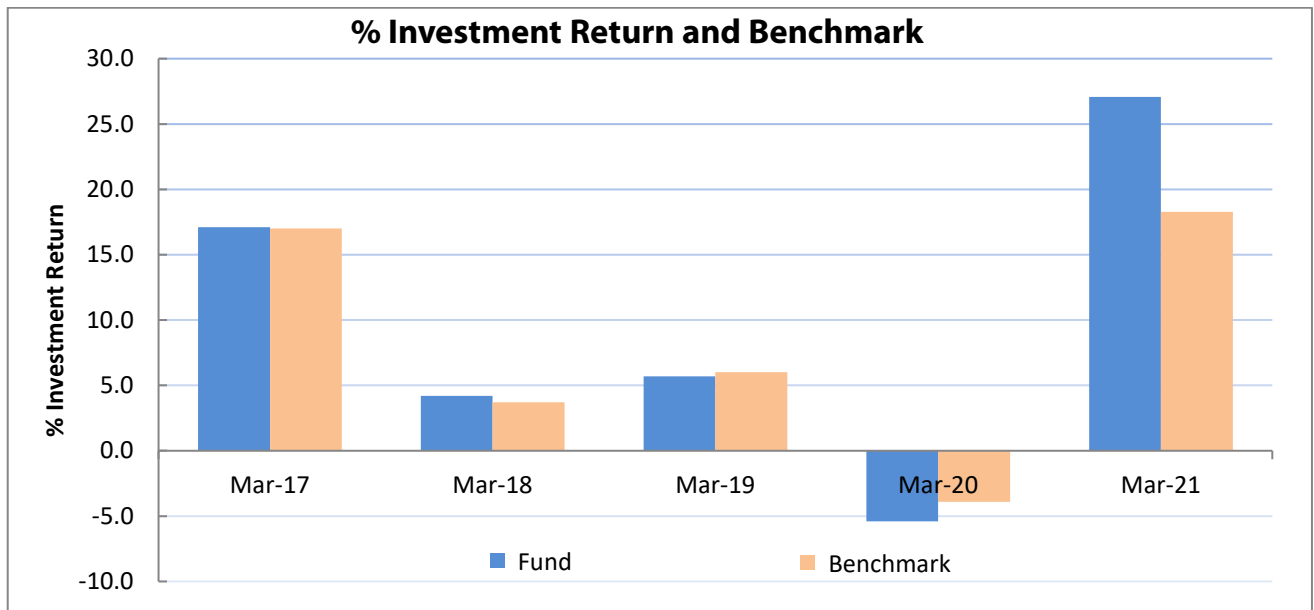
The overall strategic asset allocation is 80% in equity type assets and 20% in bond type assets as set out in the ISS. The value of the Fund as at 31 March 2021 was £961.408m and Chart 2 shows how the Pension Fund has been invested between the various types of investment mandate.

Chart 2 – The Distribution of Assets by Market Value



Performance of the Fund against the Funds strategic benchmarks is measured by the Northern Trust Company. Chart 3 provides details of the Fund's annual performance returns for the past five years.

Chart 3 – 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.

Post Pool Reporting

In accordance with Regulations the London Borough of Redbridge is a member of the London CIV and in November 2016 made our first investment through LCIV with the appointment of Baillie Gifford for the global equity mandate. Since then further investments have been made via the LCIV. To determine value for money Table 4 below shows the costs paid to the LCIV together with the savings achieved from reduced investment manager fees.

Table 4 – Value for Money from Pooling

	Prior to 2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	Cumulative Costs
	£m	£m	£m	£m	£m	£m	£m
Service Charge	0.050	0.025	0.025	0.025	0.025	0.025	0.175
Development Fees	-	-	-	0.065	0.065	0.085	0.215
Savings	-	(0.044)	(0.141)	(0.210)	(0.211)	(0.210)	(0.817)
TOTAL	0.050	(0.019)	(0.116)	(0.120)	(0.121)	(0.100)	(0.427)

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 of renewable energy assets, or in companies with strong energy transition plans. The Pension Fund has, however, moved 50% of its index-tracking equity portfolio into a Low Carbon Equity Fund as the Committee seeks to reduce the carbon foot print of the Fund.

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 Forum (LAPFF) 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

No organisation can completely eliminate risk and this is particularly so for a pension fund. This is because the Fund exists to pay future pension benefits and the future is inherently uncertain. Therefore 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% of the strategic asset allocation per mandate 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 5) and Funding Strategy Statement (Appendix 6). 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.

PENSIONS ADMINISTRATION FUNCTION

The Pension Administration Function is 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 8.08 full time equivalents, who are responsible for communicating with scheme members, pensioners and employers in the scheme.

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 experienced the impact of Covid first hand with over 251 deaths to process as well as the continued support to the changing landscape within the Council and the on-going review and implementation of system improvements. The team have also experienced an increasing number of deferred members asking for their benefits to be released early for either financial or other personal reasons.

Work Programmes Delivered

- The issuing of Annual Benefit Statements benefits by the statutory deadline of 31 August 2020 was met.
- A continued drive to improve the take up of the Altair member self-service facility. An action plan was being developed with a view of moving the majority of communication where possible via self-service during 2019. This involves updating pension records to include email addresses. The COVID-19 pandemic has seen an increase in the amount of communication undertaken electronically.
- For the third year running, the pensioners received their annual increase in the month that it was due.
- A project has commenced allowing employers and schools not using the Councils payroll service to load payroll data themselves monthly. To date 27 schools using Surrey payroll services are now loading data directly on the pensions administration software, and other employers are being onboarded during the coming year.

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 5 – Pension Administration cases and performance

Case Type	Numbers Completed 2019/20	Average Number per member of staff
New Members	817	272.33
Deferred Members	24	4.8
Pensioners and Retirements inc dependants and 17 trivial commutations	256	51.2
Transfers Out	59	11.8
Deaths	251	50.2
Annual Benefits Statements Issued	8,392	2 people work on these
Refunds	17	5
Complaints	2	1

The averages included in the table above are averaged across the staff responsible for those functions and not necessarily across the whole team.

Breakdown of Retirement Grants

The table below shows the number and value of the retirement grants processed in 2020/21.

Analysis of Retirement Grants Paid in 2020/21

Month	Normal	Redundancy	Ill-Health	TOTAL COSTS	Total Number of Cases
	£m	£m	£m	£m	
April	0.078	-	0.012	0.090	10
May	0.111	-	0.008	0.119	6
June	0.202	0.004	-	0.206	16
July	0.237	0.050	0.135	0.422	19
August	0.146	0.000	0.042	0.188	8
September	0.293	0.147	0.000	0.441	27
October	0.303	-	-	0.303	18
November	0.139	0.011	-	0.150	13
December	0.372	-	-	0.372	17
January	0.299	-	-	0.299	12
February	0.213	0.092	0.020	0.325	22
March	0.355	-	-	0.355	22
TOTAL	2.749	0.304	0.217	3.270	190

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 2021 are set out in the table overleaf:

Table 7 – Performance Indicators

	Performance Indicator	Target	Average 2020/21
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%	100%
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%	65%
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%	75%
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%	100%

Internal Dispute Resolution Procedure

Members of the pension scheme 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 2

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 3

Data Security

The Pension Fund is responsible for a lot of personal data and sensitive information. The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the Council's policies in respect of Confidentiality, Data Protection and Information Security;
- New staff have these responsibilities and policies explained to them as part of the induction and their understanding is checked;
- All administration data is stored electronically and paper records are safely destroyed;
- Where data has to be transferred off site a secure email facility is used.

MEMBERSHIP SUMMARY

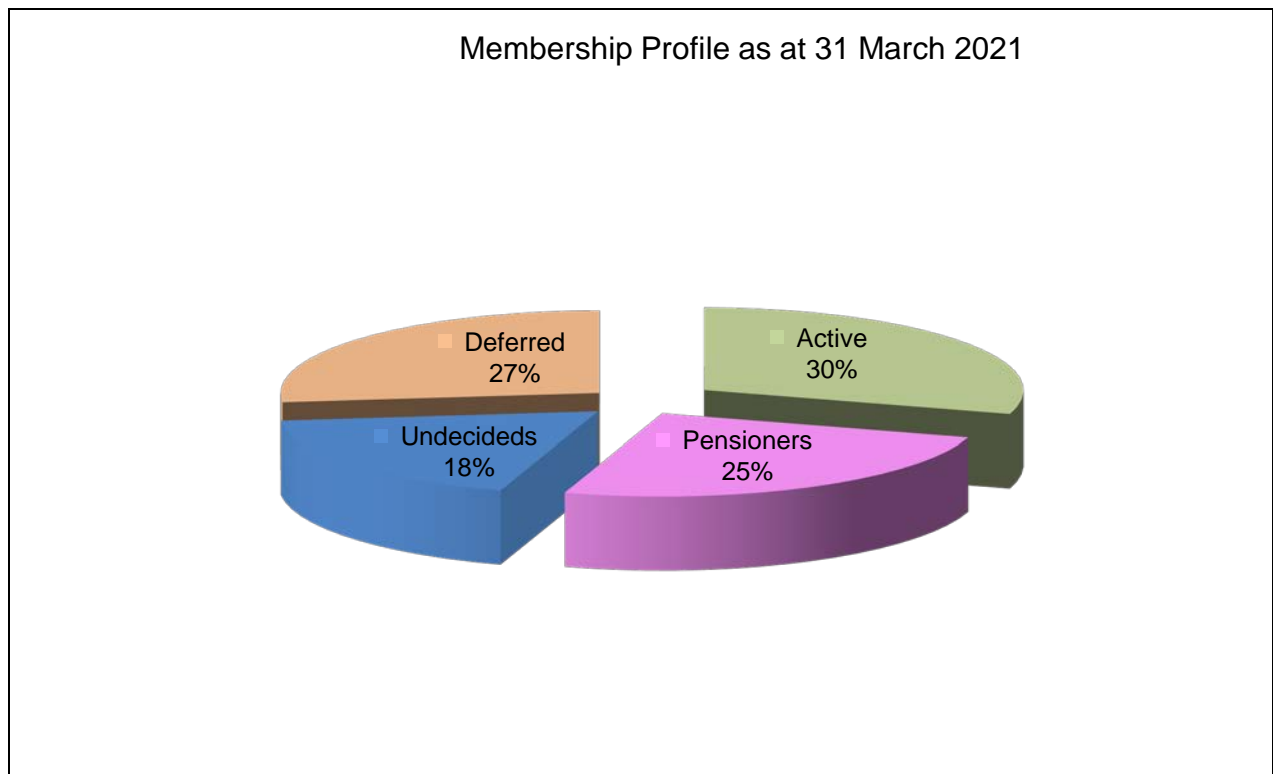
The London Borough of Redbridge Pension Fund had twenty-three contributing employers in the Fund including the Council itself. Employers are classified as either scheduled (who have automatic right to join the fund) or admitted bodies (who are admitted at the Council's discretion) as defined by Regulations. Full details of the membership by employer is attached at Appendix 1.

Changes to the employer membership during 2020/21 were as follows:

- Our Lady of Lourdes became an employer in the scheme.

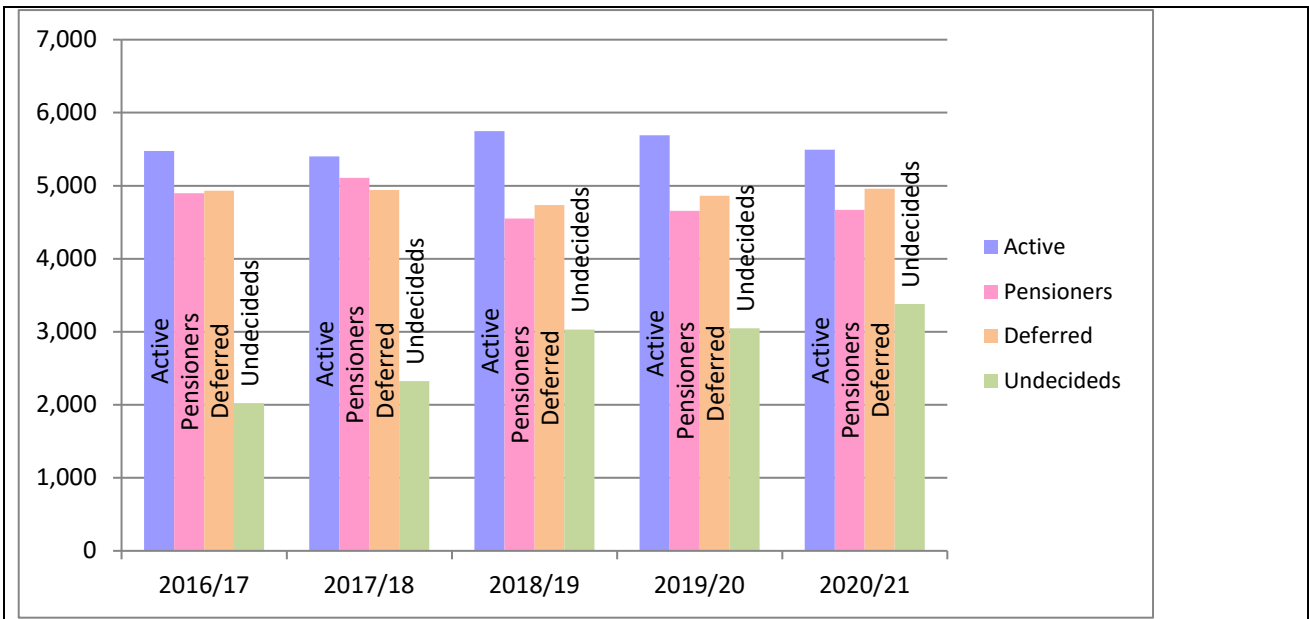
Chart 4 below shows the breakdown of the total membership by employer type.

Chart 4 – Membership classification by employer type as at 31 March 2021



The Fund membership has increased over the last five years from 17,334 to 18,500 - an increase of 6.73%. The membership profile over the same period is set out in Chart 5 overleaf.

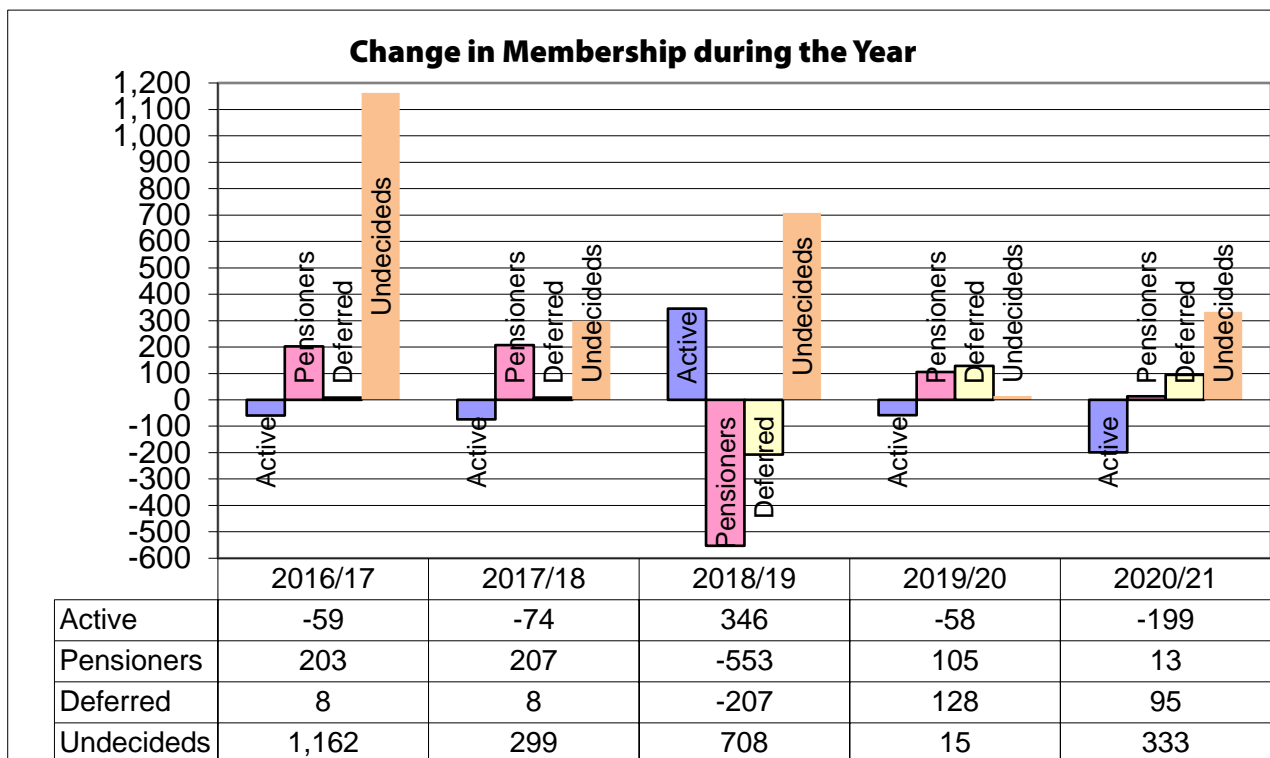
Chart 5 – Membership Composition



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, Chart 6 below shows the change in membership numbers each year for the past five years.

Chart 6 – 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.

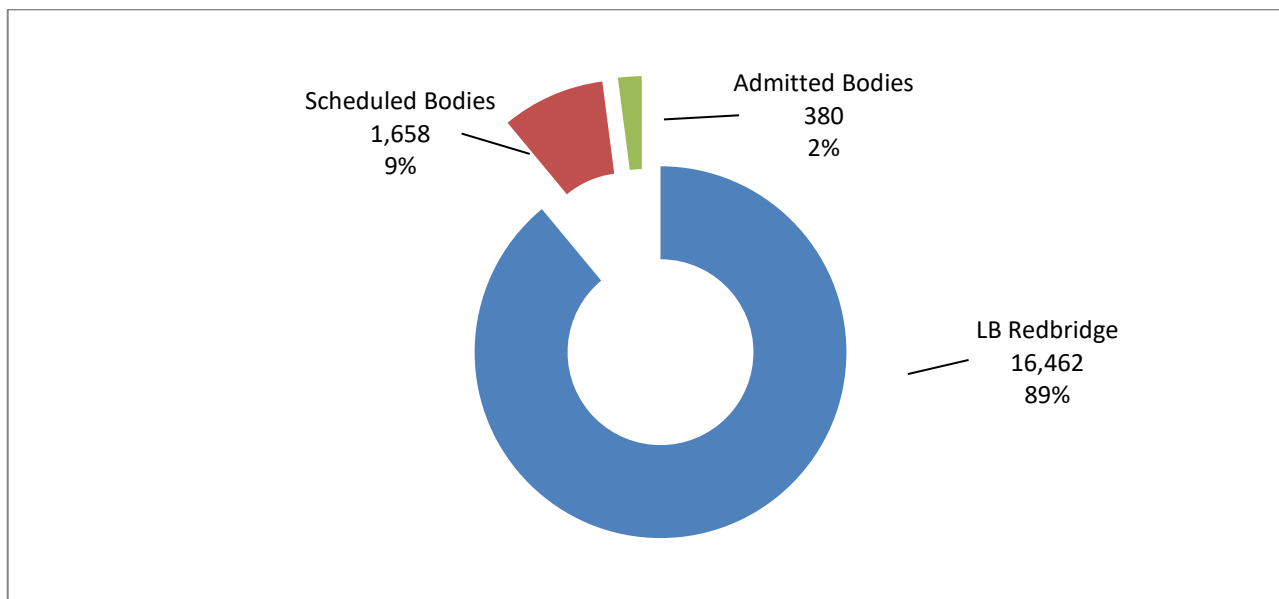
Under the legislation eligible employees who have opted out of the scheme must be automatically re-enrolled every three years.

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 2020/21 £35.213m of contributions were received by the due date which equates to 98.89%. The remaining 1.11% was mainly due to late processing of the payments by one of our employers albeit by one day.

Chart 7 shows the breakdown of the employee and employer contributions by the classification of employer.

Chart 7 – Employee & Employer Contributions classified by employer type



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.

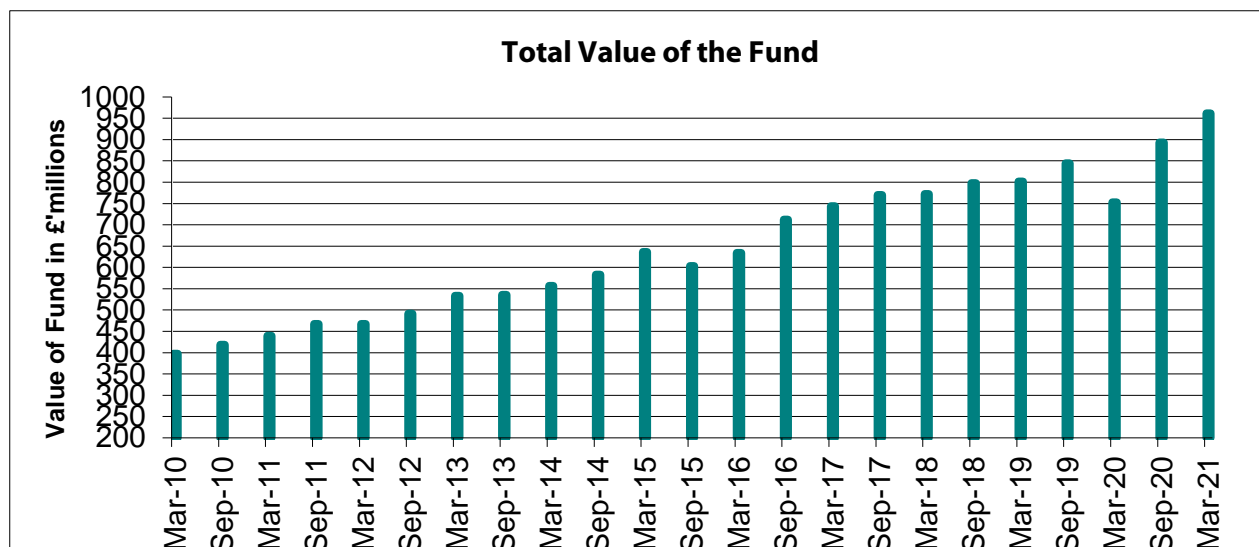
Table 8 – Annual Income & Expenditure Summary and Fund Value since 2016/17

Financial Summary	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Asset Market Value at 1 April	634.074	743.423	772.124	803.468	759.424
Income	35.945	38.270	37.113	40.207	36.261
Expenditure inc. Management expenses	(35.734)	(38.904)	(52.378)	(43.412)	(42.304)
Net Cash Flow	0.211	(0.634)	(15.265)	(3.205)	(6.043)
Investment Income	2.397	7.540	7.202	12.511	7.670
Net Realised/Unrealised Profit and (Loss)	106.741	21.795	39.407	(53.350)	200.357
Asset Market Value at 31 March	743.423	772.124	803.468	759.424	961.408

The negative cashflow position in 2018/19 was mainly due to the bulk transfer in respect of Redbridge College; in 2019/20 an increase in benefit payments and in 2020/21 it was due to some significant transfers of former employees pensions to other schemes. Going forward, income is expected to increase as the backlog of transfer payments due from other schemes are processed. Auto enrolment is expected to maintain the level of contributions received despite the changes in employer contribution rates effective from 1 April 2020 following the latest triennial valuation. Therefore the 2021/22 forecast is for a modest return to positive cashflow.

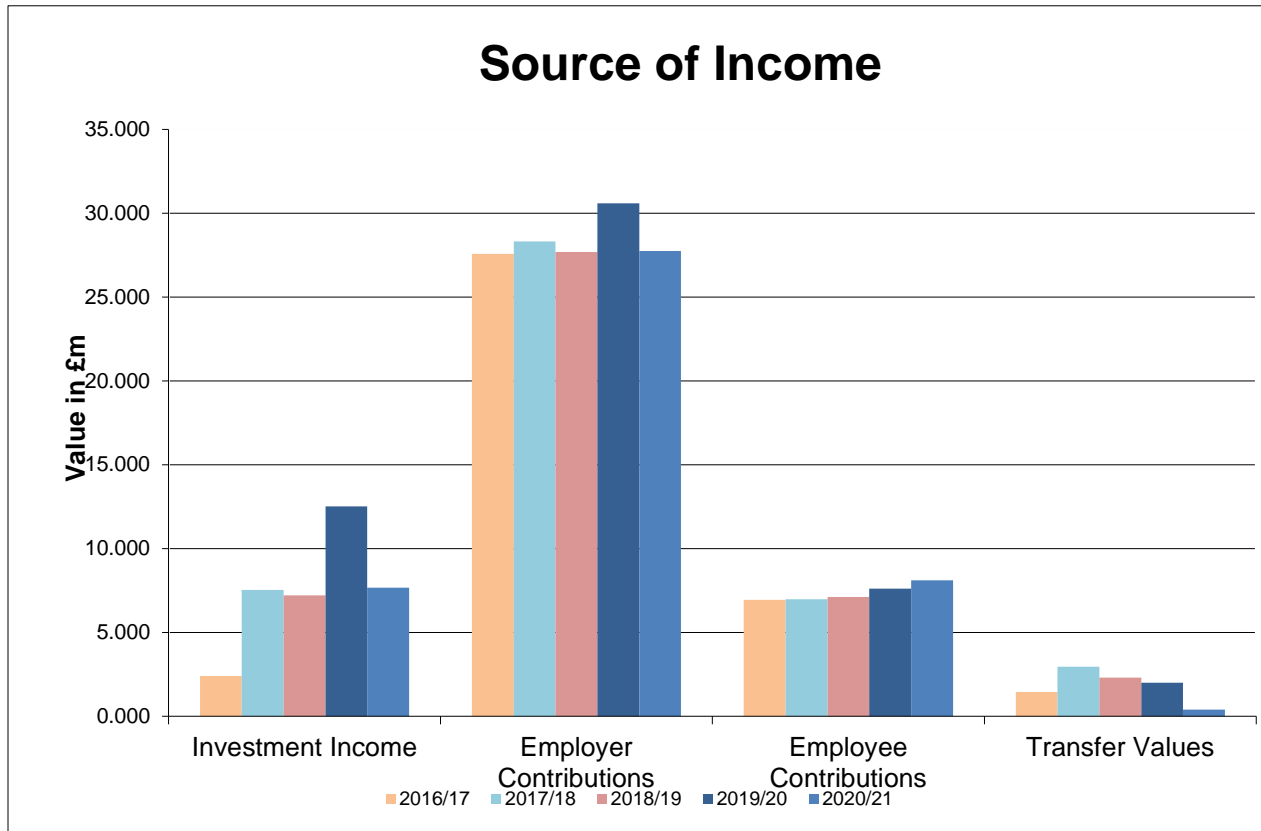
Chart 8 shows the value of the Fund since March 2008 and demonstrates the market volatility of the markets over recent years. The chart also shows that since the severe market falls in 2008/09, the Fund has more than doubled in value.

Chart 8 - Change in the value of the Fund March 2010 to March 2021



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 Regulation, 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 2019 and set the employers’ contribution rate for three years from 1 April 2020. Chart 9 provides details of the various income streams.

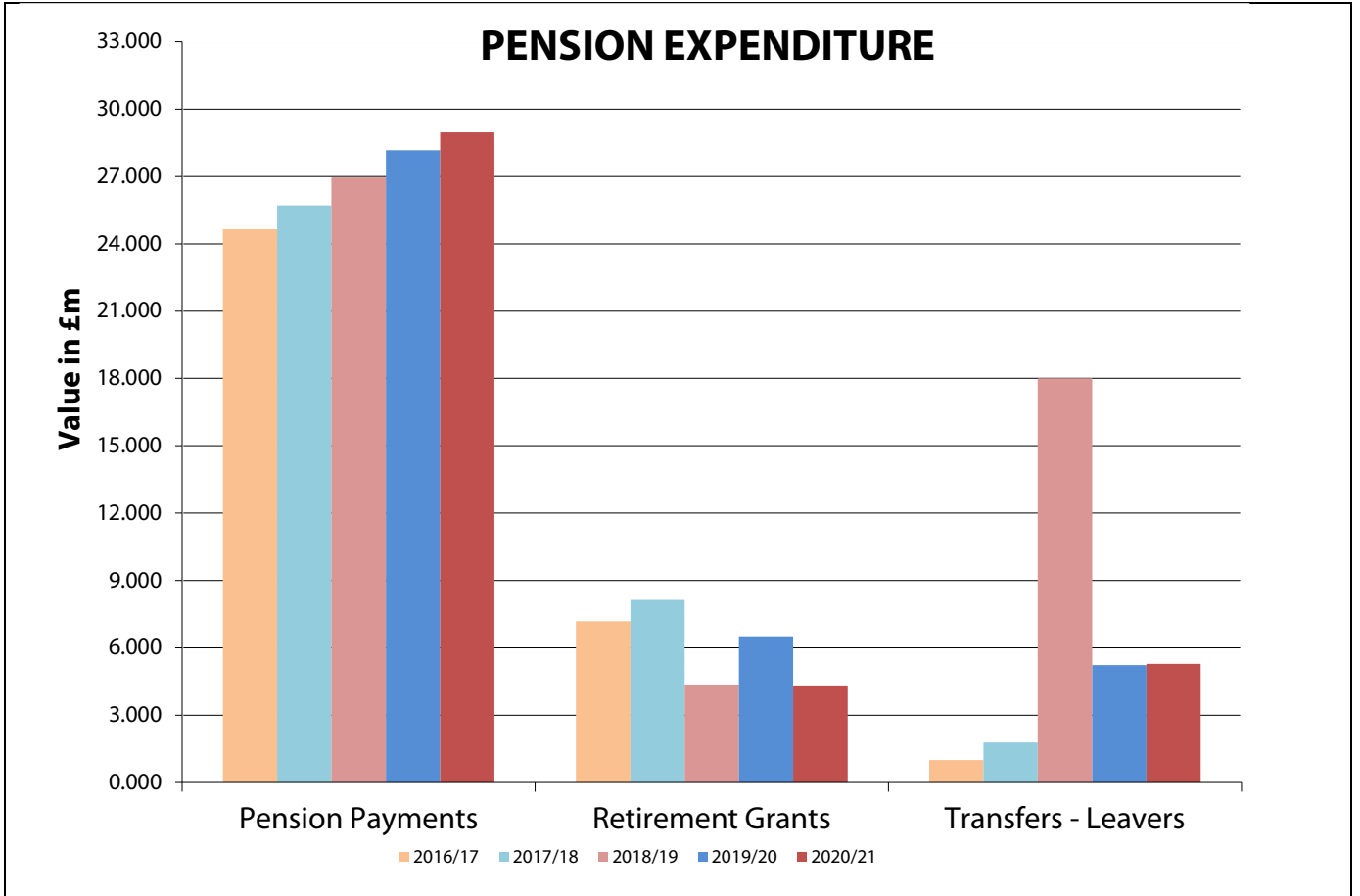
Chart 9 – Source of Income



The amount of investment income received increased in 2019/20 due to some of the pooled unit trusts paying an income to the Fund, as opposed to re-investing the income generated back into the pooled unit trust. This receiving of income arrangement was suspended in 2020/21.

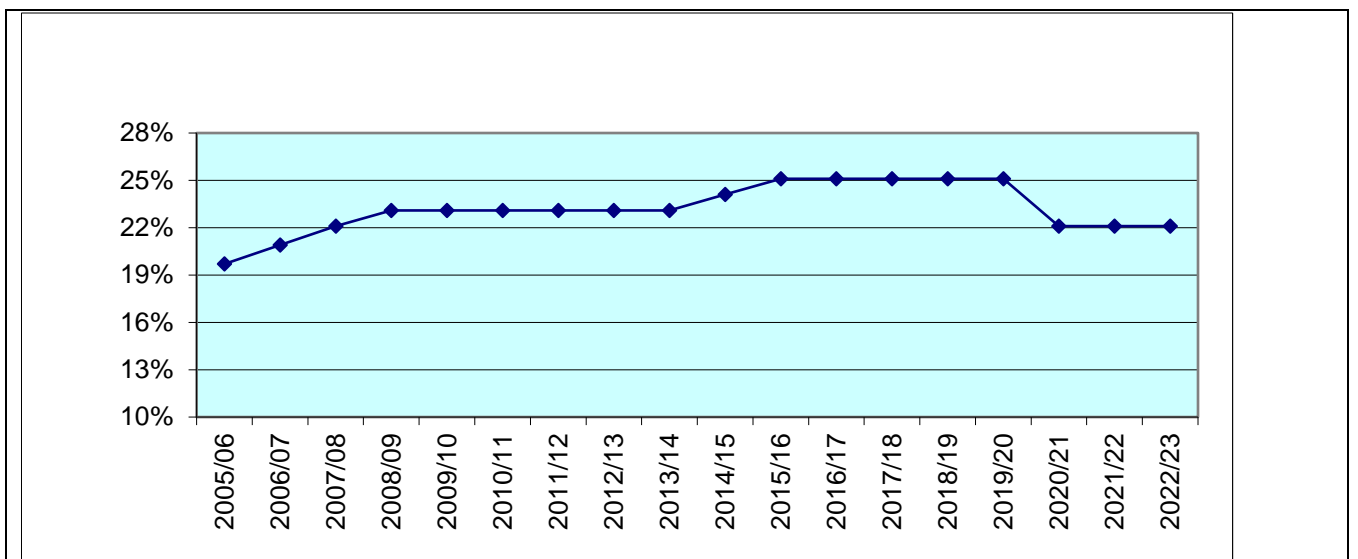
In 2020/21 pensions were increased by 1.74% in-line with inflation. The value of the average pension is now £6,202 per year. The increase in pension expenditure is shown in Chart 10.

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 fifteen years and for the next three 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 9 sets out actual income and expenditure along with the estimated budget for 2020/21.

Table 9 – Income and Expenditure 2020/21

Expenditure	2020/21 Budget £m	2020/21 Actual £m	Variance £m	Comment
Pension Payroll	29.00	28.970	(0.030)	Within budget
Retirement & Death Grants	6.500	4.248	(2.252)	Fewer number of retirements than anticipated
Transfer Values	3.000	5.287	2.287	Due to transfer of some former senior officers to other pension schemes.
Other inc. management fees	3.215	3.725	0.510	Increase in Actuarial Fees and Investment Fund Managers fees
Investment with Fund Managers	-	26.037	26.037	Drawdown payments into Infrastructure Fund
TOTAL EXPENDITURE	41.715	68.267	26.552	

Income	2020/21 Budget £m	2020/21 Actual £m	Variance £m	
Contributions - employees & employers	(35.800)	(35.608)	0.192	Change to contribution rates following triennial valuation. Fewer new members than anticipated.
Transfer Values	(2.500)	(0.405)	2.095	Fewer transfers than predicated.
Early Retirement Pension Strain	(1.800)	(0.248)	1.552	Fewer redundancies made than predicted
Income from investment managers	(2.000)	(2.881)	(0.881)	Income from equity units to cover drawdown commitments.
Disinvestment	-	(27.830)	(27.830)	Disinvestment to fund new drawdown commitments
TOTAL INCOME	(42.100)	(66.972)	(24.872)	
IN-YEAR DEFICIT / (SURPLUS)		1.295		
CASH BALANCE BROUGHT FORWARD		(6.425)		
Year End Debtors and Creditors		(1.029)		
YEAR-END CASH BALANCE		(6.159)		

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 10 sets out details of these additional costs together with the original budget estimate.

Table 10 – Cost of Pension Administration

	2020/21 Budget £m	2020/21 Actual £m	Variance £m	Comment
LBR Recharge	0.500	0.475	(0.025)	
Computer System	0.190	0.232	0.042	Cost of enhancements not included in budget
Actuarial Services	0.062	0.059	(0.003)	
Subscriptions	0.020	0.021	0.001	
Training	0.002	0.001	(0.001)	
Audit	0.016	0.016	-	

Table 11 –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.

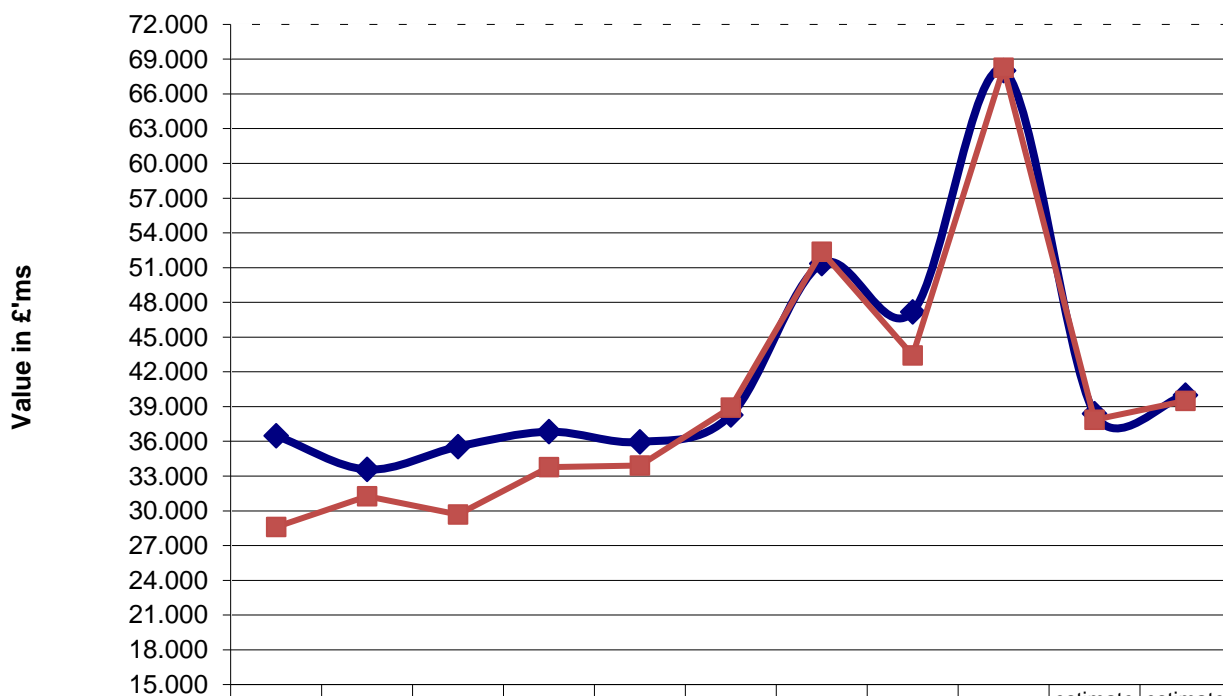
	Budget £m	Actual £m	Variance £m	Comment
Local Pension Board	(0.010)	(0.003)	0.007	No travelling expenses incurred as a result of Covid.

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 overleaf demonstrates the change in the level of income over expenditure in recent years. Whilst it is anticipated that sufficient income will be available to maintain a cash-positive position for at least the next few years, this will need to be kept under review particularly as the Fund continues to mature. The spike in 2018/19 was due to the bulk transfer in respect of Redbridge College.

Chart 12 – LBR Cash Flow

LBR CASH FLOW



		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	estimate 2021/22	estimate 2022/23
◆ Inflow	£m	36.495	33.572	35.539	36.834	35.945	38.270	51.336	47.176	68.001	38.400	40.000
■ Outflow	£m	28.605	31.261	29.688	33.785	33.915	38.905	52.378	43.412	68.267	37.865	39.500



London Borough of Redbridge Pension Fund (“the Fund”) Actuarial Statement for 2020/21

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). 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 have a sufficiently high likelihood of achieving the funding target over 17 years. 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 around a 66% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £803 million, were sufficient to meet 84% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £150 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 2020 to 31 March 2023 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 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.6%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	21.6 years	23.7 years
Future Pensioners*	22.5 years	25.3 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



Barry Dodds FFA
12 May 2021
For and on behalf of Hymans Robertson LLP

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH
OF REDBRIDGE ON THE PENSION FUND FINANCIAL STATEMENTS**

Not yet available

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 33 to 47 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 2020 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 & Section 151 Officer
XX XXX 2021

Pension Fund Account for the Year Ended 31 March 2021

2019/20 £000		Notes	2020/21 £000
	Dealings with members, employers and other directly involved in the Fund.		
38,206	Contributions receivable	7	35,856
2,001	Transfers in	8	405
40,207			36,261
	<i>Less:</i>		
(34,680)	Benefits payable	9	(33,248)
(5,283)	Leavers	10	(5,313)
(39,963)			(38,561)
244	Net additions/(withdrawals) from dealings with members		(2,300)
(3,449)	Management Expenses	11	(3,743)
	Returns on Investments		
12,511	Investment income	12	7,670
(53,350)	Change in market value of investments	13(b)	200,357
(40,839)	Net returns on Investments		208,027
(44,044)	Net increase/(decrease) in the Fund during the year		201,984
803,468	Net Assets of the scheme at 1 April 2020		759,424
759,424	Net Assets of the scheme at 31 March 2021		961,408

Net Assets Statement as at 31 March 2021

2019/20 £000		Notes	2020/21 £000
150	Long Term Investments	13	150
752,797	Investment Assets		954,553
752,947			954,703
7,179	Current Assets	17	7,193
(702)	Current Liabilities	17	(488)
759,424	Net Assets of the Scheme at 31 March 2021		961,408

The accounts summarise the transactions and net assets of the Pension 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 21.

I certify that the Pension Fund Account and Net Assets Statement present a true and fair view of the income and expenditure in 2020/21 and the Pension Fund's financial position as at 31 March 2021.

Maria G Christofi, BA (Hons), FCCA, CPFA
Corporate Director of Resources & Section 151 Officer
XX XXX 2021

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 Council 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 2021 were: 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, Avanti Court School, Astrum Academy, Strive4 Academy, Al-Noor Academy, Good Shepherd Diocese, St Peters & St Paul's Academy and Our Lady of Lourdes Academy.

The admitted bodies in the scheme as at 31 March 2021 were: Morrison Facility Management Limited, Vision-Redbridge Culture & Leisure, Imagine Independence Ltd, Dizzy Ducks Nursery, Lewis & Graves, Alliance in Partnership (AiP), Birkin Clean, Coram and Westminster Drug Project.

As at 31 March 2021 the membership of the scheme was as follows:

Active Members	As at 31 March 2020	As at 31 March 2021
Redbridge Council	4,572	4,576
Scheduled Bodies	948	756
Admitted Bodies	171	160
TOTAL	5,691	5,492

Pensioners	As at 31 March 2020	As at 31 March 2021
Redbridge Council	4,441	4,429
Scheduled Bodies	107	125
Admitted Bodies	110	117
TOTAL	4,658	4,671

Deferred Members	As at 31 March 2020	As at 31 March 2021
Redbridge Council	7,251	7,457
Scheduled Bodies	559	777
Admitted Bodies	99	103
TOTAL	7,909	8,337

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 2020/21 financial year and its position as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 21.

Going Concern - At the date of the authorisation of the financial statements, the Fund does not consider that the impact of Covid-19 gives rise to material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. The Council therefore remains satisfied that the Fund it administers continues to be a going concern.

The Pension Funds latest actuarial valuation as at 31 March 2019, showed it to be 84% funded, an increase of 4% from the position 3 years ago. The actuarial valuation includes the Rates and Adjustment certificate detailing contributions to the Pension Fund that participating employers are expected to make. It remains the Fund's expectation that these will be paid as planned, and to date the Fund has not received a request from participating employers to defer contribution payments because of the pandemic.

Following the latest actuarial valuation and schedule of employer contributions payments, the Pension Fund has reviewed its cashflow forecast. The fund should have sufficient cash for the next 3 years to meet its obligations to pay pensions without selling any investments. Should investments be required to be sold because of negative cashflows or employers being unable to pay their contributions (which is not expected) the Pension Fund would have ready access to cash as 83.46% of the Fund's investments could be sold at short notice.

Increased Market Volatility - The value of the Investment assets of the Fund may change on a daily basis, however the degree of volatility in global financial markets has increased because of continuing social and economic uncertainties created by the Covid-19 pandemic. Despite this, the Fund remains in a strong financial position, capable of meeting all its payment obligations. The Funding Strategy is based on long term investment returns and as such, the increased volatility seen at present is not considered a material concern.

The bid value of the Fund's investment assets as at 31 March 2021 were £961.408m an increase of 26.60% in the value of the Fund's investment assets since 31 March 2020. On the 30 June 2021 the bid value of the Fund's investments was £1,022.102m. This reflects an increase of 6.31% in the value of the Fund's investment assets since 31 March 2021.

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

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 accruals basis. Investment income on overseas investments have 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 accruals 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** – As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. VAT receivable is excluded from income.
- G) **Voluntary Scheme Pay (VSP), Mandatory Scheme Pay (MSP) and Lifetime Allowances** - Members are entitled to request the Pension Fund to pay their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.
- H) **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 pensions 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.
- I) **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.
- J) **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

- K) **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.
- L) **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.
- M) **Derivatives** – the pooled units in which the Fund invests uses derivative financial instruments to manage its exposure to specific risk arising from its investment activities.
- N) **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.
- O) **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.
- P) **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 22).
- Q) **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 23).

4. Critical Judgements in Applying Accounting Policies

The Pension Fund liability is calculated triennial by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in Note 22. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

5. 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 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

6. Events after the Year End Date

There have been no events since 31 March 2021 and up to the date when these accounts were authorised that require any adjustment to these accounts.

7. 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 13.3% to 35.4% 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.

		2019/20	2020/21
		£000	£000
Employers			
	London Borough of Redbridge	26,226	23,296
	Scheduled Bodies	3,205	3,435
	Admitted Bodies	1,165	1,019
		30,596	27,750
Members			
	London Borough of	6,429	6,845
	Scheduled Bodies	891	992
	Admitted Bodies	290	269
		7,610	8,106
		38,206	35,856

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

	2019/20	2020/21
	£000	£000
Normal Employer Contributions	22,385	24,876
Deficit Payments *	6,903	248
Augmentation (Early Retirements)	1,308	2,626
	30,596	27,750

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

8. Transfers In

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

	2019/20	2020/21
	£000	£000
Individual Transfers from other schemes – London Borough of Redbridge	2,001	405
	2,001	405

9. Benefits Payable

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

	2019/20	2020/21
	£000	£000
Pensions	28,166	28,969
Commutation of Pensions and Lump Sum Retirement Benefits	5,461	3,343
Lump Sum Death Benefit	1,006	905
Interest	47	31
	34,680	33,248

	2019/20	2020/21
	£000	£000
By Employer		
London Borough of Redbridge	32,36	31,562
Scheduled Bodies	539	737
Admitted Bodies	1,205	949
	34,680	33,248

10. Payments to and on Account of Leavers

Regulations permit a refund of employee contributions to be made to new members with less than two years 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. The bulk transfer is in respect of the transfer of Redbridge College to another fund.

	2019/20	2020/21
	£000	£000
Refunds to members	56	26
Bulk Transfers to another Scheme	-	-
Individual Transfers to other Schemes	5,227	5,287
	5,283	5,313

11. 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.

	2019/20	2020/21
	£000	£000
Administrative Costs	798	1,029
Investment Management Expenses	2,470	2,420
Oversight and Governance	165	277
Audit Fees	16	16
	3,449	3,743

11(a). Investment Management Expenses

	2019/20	2020/21
	£000	£000
Management Fees	2,402	2,346
Performance Management Fees	20	-
Custody Fees	48	74
	2,470	2,420

2019/20				2020/21		
TOTAL	Pooled Units outside of LCIV	Pooled Units through LCIV		TOTAL	Pooled Units outside of LCIV	Pooled Units through LCIV
£000	£000	£000		£000	£000	£000
1,847	800	1,047	Fund Manager	1,760	634	1,176
68	20	48	Custody Fees	74	26	48
366	6	360	Pool Costs	188	-	
189	-	189	Other Expenses	348	-	
2,470	826	1,644		2,420	660	1,760

12. Investment Income

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

	2019/20	2020/21
	£000	£000
Pooled Investments Vehicles	10,289	5,330
Property Unit Trusts	2,131	2,198
Cash Deposits	69	48
Other Investment Income	22	93
	12,511	7,670

13. Investments

The table below shows the Fund's investments by asset class:

	2019/20	2020/21
	£000	£000
Investment Assets		
Pooled Investments	683,206	882,376
Pooled Property Investments	68,675	71,766
Cash Deposits	1,066	561
Total Investment Assets	752,947	954,703

There are no investment liabilities.

The table below shows a detailed analysis of the investments held by the Fund as at 31 March 2021 with a comparison table showing detailed analysis of the investments held by the Fund as at 31 March 2020.

2020/21	Value at 31/03/20 £000	Purchases at cost £000	Sales proceeds £000	Change in fair value £000	Cash movement £000	Value at 31/03/21 £000
Pooled Equity Unit Trusts	683,056	38,107	(38,427)	199,490	-	882,22
London CIV	150	-	-	-	-	150
Property Unit Trusts	68,675	2,70	-	385	-	71,76
	751,881	40,813	(38,427)	199,875	-	954,14
Other Balances						
Cash Deposits	1,066	-	-	-	(987)	561
	752,947	40,813	(38,427)	200,357	(987)	954,70
2019/20	Value at 31/03/19 £000	Purchases at cost £000	Sales proceeds £000	Change in fair value £000	Cash movement £000	Value at 31/03/20 £000
Pooled Equity Unit Trusts	731,664	240,81	(238,262)	-	-	683,05
London CIV	150	-	-	-	-	150
Property Unit Trusts	69,336	2,16	-	(2,82)	-	68,67
	801,150	242,98			-	751,88
Other Balances						
Cash Deposits	458	-	-	-	(34)	1,06
	801,608	242,98	(238,262)	(53,350)	(34)	752,94

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.

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

Investment	31 March 2021	% of net assets
UK Equity Index Unit Trust	78,557	8.3%
All World (ex UK) Equity Index Unit Trust	69,898	7.3%
Low Carbon Equity Index Unit Trust	163,773	17.2%
Global Equity Fund	213,443	22.4%
Emerging Markets Equity Fund	51,953	5.4%
Absolute Return Fund	59,466	6.2%
Index Linked Bond Fund	87,502	9.2%
Diversified Growth Fund (DGF)	122,364	12.8%
Schroder Property Fund	71,767	7.5%

13(a) Investments - Fund Management

As at 31 March 2021, the fair value of assets under management was £961.408m. 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 structure of the Fund resulted in a strategic benchmark of 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. The Tables below shows details of the investment mandates analysed between those invested managed by the pool and those outside of the pooled arrangement:

31/03/20 £000	% of Portfolio	Mandate	31/03/21 £000	% of Portfolio	Strategic Asset Allocation %
Investments managed by Pool					
136.580	17.99	Global Equity	213.443	22.20	15.00
116.229	15.31	Diversified Growth	122.364	12.73	10.00
0.721	0.09	Infrastructure	16.572	1.72	10.00
-	-	Inflation Plus	18.698	1.95	10.00
111.510	14.68	Global Equity	148.455	15.44	15.00
117.798	15.51	Low Carbon Equity	163.773	17.03	15.00
100.999	13.30	Index Linked Gilts	87.502	9.10	10.00
583.837	76.88		770.807	80.17	85.00
Investments managed outside of Pool					
34.414	4.53	Equity - Emerging Markets	51.953	5.40	5.00
64.804	8.54	Fixed Income	59.466	6.19	-
68.675	9.04	Property	71.767	7.47	10.00
7.694	1.01	Cash	7.415	0.77	-
175.587	23.12		190.601	19.83	15.00
759.424	100.00	TOTAL	961.408	100.00	100.00

14 Classification of 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.

2019/20			2020/21		
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
			Financial Assets		
683,206	-	-	882,375	-	-
68,675	-	-	71,767	-	-
-	7,492	-	-	6,720	-
-	753	-	-	1,034	-
751,881	8,245	-	954,142	7,754	-
			Financial Liabilities		
-	-	(702)	-	-	(488)
-	-	(702)	-	-	(488)
751,881	8,245	(702)	954,142	7,754	(488)
759,424			961,408		
			Grand Total		

14 (a) Net Gains and Losses on Financial Instruments

2019/20		2020/21
£000	Financial Assets	£000
53,350	Fair value through profit & loss	200,357
53,350	TOTAL	200,357

14 (b) Fair Values of Financial Instruments and Liabilities

The following table summarises the fair values of the financial assets and financial liabilities by class of instrument.

31 March 2020 Fair Value £000		31 March 2021 Fair Value £000
Financial Assets		
751,881	Fair value through profit & loss	954,142
7,543	Loans and Receivables	7,266
759,424	Total Financial Assets	961,408
-	Total Financial Liabilities	-
759,424		961,408

15. Fair Value – Basis of Valuation

The valuation of financial instruments has been classified into three 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.

Level 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instruments' valuation is not based on an observable market data.

15(a) Fair Value Hierarchy

The table below provides analysis of the assets and liabilities of the pension fund allocated into levels 1 to 3 based on the level at which fair value is observed.

Values as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit & loss	-	918,722	35,420	954,142
Financial Assets at amortised cost	7,266	-	-	7,266
Total Financial Assets	7,266	918,722	35,420	961,408
Financial Liabilities				
Financial liabilities at fair value through profit & loss	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-
Total Financial Liabilities	-	-	-	-
Net Financial Assets	7,266	918,722	35,420	961,408

Values as at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit & loss	-	751,010	871	751,881
Financial Assets at amortised cost	7,543	-	-	7,543
Total Financial Assets	7,543	751,010	871	759,424
Financial Liabilities				
Financial liabilities at fair value through profit & loss	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-
Total Financial Liabilities	-	-	-	-
Net Financial Assets	7,543	751,010	871	759,424

This comparable table has been restated to recognise the share of the London CIV as Level 3 as opposed to Level 2.

15(b) Reconciliation of Fair Value Measurements within Level 3

	London CIV £000	Infrastructure £000	Inflation Plus £000	TOTAL £000
Value at 31 March 2020	150	721	-	871
Purchases	-	16,704	19,930	36,634
Unrealised profit and loss	-	(853)	(1,232)	(2,085)
Value at 31 March 2021	150	16,572	18,698	35,420

16. Nature and Extent of Risks arising from Financial Instruments

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	78,557	86,412	70,701
Overseas/Global Equities	621,432	683,575	559,289
Fixed Income	146,967	161,664	132,271
Property	71,767	78,944	64,590
Infrastructure	16,572	18,229	14,915
Inflation Plus	18,698	20,567	16,828

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. pounds sterling.

The following table shows the change in value of these assets had there been a 10% strengthening/weakening of the pound against the various currencies:

Currency Risk (by asset class):

Asset Type	Value £000	Value on Increase £000	Value on Decrease £000
Overseas Equities	621,432	683,575	559,289

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.

Interest Rate Risk

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

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 cashflow 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.

17. 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.

18. Current Assets and Liabilities

	2019/20	2020/21
	£000	£000
Cash at Bank	6,425	6,159
Contributions due	565	780
Sundry debtors	189	254
Prepaid expenses	-	-
Total of Current Assets	7,179	7,193
Accrued benefits	(22)	(73)
Accrued expenses	(680)	(415)
Sundry creditors	-	-
Total of Current Liabilities	(702)	(488)

19. Stock Lending

The Fund does not participate in stock lending arrangements.

20. Related Party Transactions

The London Borough of Redbridge is the single largest employer of members in the Pension Fund and contributed £23.296m to the Fund in 2020/21 (£26.226m in 2019/20).

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 to the Pension Fund were £0.475m (£0.415m in 2019/20).
- Investment services undertaken by the Council to the Pension Fund were £0.122m (£0.122m in 2019/20).

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.

21. Actuarial Valuation

In 2020/21, the contribution rate paid by the Council as an employer was determined following an actuarial valuation of the Fund as at 31 March 2019. The valuation as at 31 March 2019 set the employer's contribution rates for the years 2020/21, 2021/22 and 2022/23. 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:

Assumption	Rate
The rate of increase in pensionable earnings	2.3%
"Gilt-based" discount rate	3.6%
The level of increase in earnings growth	2.3%

The result of the 2019 valuation was that the value of the Fund's assets was actuarially assessed as £803m, which was sufficient to meet 84% 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

2019 valuation, those employers within the Fund that have funding shortfalls are required to make repayments over an agreed period in accordance with the policies set out in the Pension Fund's Funding Strategy Statement (available on the Council's website 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 2020. The next valuation is due to be undertaken on 31 March 2022.

22. 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 2021 for the entire Fund comprises of:

Type of Member	31 March 2020	31 March 2021
	Liability	Liability
	£m	£m
Employees	397	603
Deferred Members	276	379
Pensioners	463	500
Total	1,136	1,482

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 IAS26 information).

	31 March 2020	31 March 2021
	£m	£m
Present value of funded obligations	(1,136)	(1,482)
Fair value of Fund Assets (BID Value)	759	961
Net Liability for the whole Fund	(377)	(521)

These calculations have been determined using the following financial assumptions:

Year Ended	31 March 2020	31 March 2021
	% p.a.	% p.a.
Inflation / Pension Increase Rate	1.90	2.85
Salary Increase Rate	1.90	2.85
Discount Rate	2.30	2.00

23. 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 thirteen members of the Pension Fund contribute to the AVC schemes. In 2020/21 £18,546 of contributions deductions were made in respect of the AVC Scheme (£27,853 in 2019/20).

Market Value		Market Value
31 March 2020	AVC Provider	31 March 2021
£000		£000
233	Equitable Life	201
169	Clerical Medical	224
240	Standard Life	278
642	TOTAL	703

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.

24. Contractual Commitments

The Fund has committed £70m into the Step-stone Infrastructure Fund. Of this commitment £52.575m was outstanding at 31 March 2021.

The Fund also has committed £70m into the Aviva Inflation Plus Fund. Of this commitment £50.070m was outstanding as at 31 March 2021.

PUBLICATIONS

The Pension Fund publishes the following documents on the Council's website 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 February.

2. Pension Administration Strategy (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:

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

3. Communication Policy Statement (Appendix 3)

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 4)

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 2020/21 in light of the governance review undertaken by the Council.

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

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 6)

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 revised FSS will be published in 2020. The next valuation is due 31 March 2022.

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

EMPLOYERS WITHIN THE REDBRIDGE PENSION FUND

The table below outlines the membership profile as at 31 March 2020 for all employers in the Fund as well as their status.

Employer	Status	Active	Deferred	Undecideds	Pensioner	Total	%
LB Redbridge	Scheduled	4,576	2,772	4,685	4,429	16,462	88.98%
Al-Noor School	Scheduled	1	-	-	-	1	0.01%
Aldborough E-Act School	Scheduled	17	14	3	-	34	0.18%
Astrum Academy	Scheduled	115	43	1	8	167	0.90%
Atam Academy	Scheduled	5	1	-	-	6	0.03%
Avanti Court Primary School	Scheduled	33	17	3	-	53	0.29%
Beacon Academy Trust	Scheduled	110	132	30	27	390	1.62%
Chadwell Heath Academy	Scheduled	35	15	27	14	91	0.49%
Good Shepherd Catholic Trust	Scheduled	1	-	-	-	1	0.01%
Isaac Newton Academy	Scheduled	35	53	6	1	95	0.51%
Little Heath School	Scheduled	65	68	24	15	172	0.93%
Loxford Academy	Scheduled	42	68	3	8	121	0.65%
Mayfield School	Scheduled	86	17	58	18	179	0.97%
Our Lady of Lourdes Academy	Scheduled	21	-	-	-	21	0.11%
Palmer Academy	Scheduled	27	30	13	12	82	0.44%
St. Aidan's Academy	Scheduled	19	21	4	6	55	0.27%
St Peter's & St. Paul's Academy	Scheduled	36	-	-	1	37	0.20%
Strive 4 Academy	Scheduled	73	58	2	3	136	0.73%
Ursuline Academy	Scheduled	17	11	40	12	80	0.43%
Winston Way Academy	Scheduled	18	15	-	-	33	0.18%
AiP	Admitted	5	-	-	-	5	0.03%
Birkin Clean	Admitted	8	-	-	1	9	0.05%
Coram	Admitted	1	-	-	-	1	0.01%
Dizzy Ducks Nursery	Admitted	1	4	-	1	6	0.03%
Lewis & Graves	Admitted	5	5	1	1	12	0.07%
Imagine Independence	Admitted	2	-	1	2	5	0.03%
Morrisons	Admitted	29	2	11	31	73	0.40%
Vision	Admitted	108	33	45	81	267	1.44%
Westminster Drugs Project	Admitted	1	1	-	-	2	0.01%
		5,492	3,380	4,957	4,671	18,500	100.00%

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.



Pension Administration Strategy

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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

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

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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:

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London Borough of Redbridge

HR Services

255 – 259 High Road Ilford

Essex IG1 1NN

Email: HRHelpdesk@HR.Direct@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.

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.

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:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group (Active, Deferred,
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 Distributi	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"> • Pension Fund valuation reports • R&A certificates • Revised R&A • Cessation valuations 	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.

Audience	Communication	Statutory delivery	Target delivery period
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



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 the Ministry of Housing, Communities and Local Government (MHCLG). 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, 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 Operational Director of Assurance. Except where the discretionary payment is in respect of a Director or Chief/Head of Service.

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

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 Northern Trust 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 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

By telephone to **020 8708 3030**, or

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

GOVERNANCE COMPLIANCE STATEMENT – INVESTMENT STRATEGY STATEMENT

The principles set out in this statement are based on the governance compliance statutory guidance published by the MHCLG. 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.

(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.

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

PENSION FUND

INVESTMENT STRATEGY STATEMENT

If you have any queries please contact Jan Grant in the first instance at 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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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 Redbridge Pension Fund are set out in Appendix 1.

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 above long-term Government bond yields, subdivided 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 the 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 2.

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, as Administering Authority, 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:

LIMIT	RESTRICTION
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 overleaf:

Asset Class	Manager	Allocation %	Allowable Ranges %	Role(s) within the Strategy
Global Equities	LCIV – Legal & General	15	+/- 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 – Low Carbon Fund	LCIV – Legal & General	15	+/- 5	To generate positive long-term returns to meet the Fund’s funding requirements. To achieve a return in-line with the 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%
Diversified Growth Fund	LCIV – Baillie Gifford	10	+/- 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 3 ½% above one-month LIBOR (London Inter-Bank Offer Rate)
Index-linked Gilts	LCIV – Legal & General	10	+/- 5	To reduce volatility of the Fund’s funding level and to provide protection against inflation increases.
Infrastructure	LCIV _ Stepstone	10	+/- 5	To provide diversification and to achieve a net return of between 8% and 10%
Bonds/Inflation Plus	Aberdeen Standard. LCIV- Aviva	10	+/- 5	To reduce volatility of the Fund’s funding level and to provide protection against inflation increases.
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%
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, Stepstone, Aviva and Legal & General are managed through the LCIV as the Fund seeks to pool its investments in accordance 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 the fund’s custodian, Northern Trust. The Committee reviews the performance of the Fund and its Fund Managers at quarterly meetings against the respective benchmarks. The objectives set for the Fund Managers are primarily over a rolling three-year periods.

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 3.

Regarding 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 through 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 strategy incorporates flexibility of up to +/- 5% of the strategic asset allocation per mandate, 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 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 invariably 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 previously 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.

The Committee has acknowledged that there is a risk to the Fund's investments from Climate Change and therefore has reduced its exposure to this risk within the equity portfolio by investing in a low carbon fund. It is expected that this fund will provide superior returns over the long term in the same way as the other equity pooled unit trusts, but with less risk from climate change.

In accordance with Regulations, a Local Pension Board was formed 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.

4. APPROACH TO ASSET POOLING

The Fund has been a supporter of the pooling of assets with London Collective Investment Vehicle (LCIV) since it was created in 2013 and contributed to the funding of set-up costs. In 2014 the Fund became a shareholder of the LCIV. Following the launch of funds under management by the LCIV, the Fund has invested 15% of the portfolio into the Alpha Growth Global Equity Fund managed by Baillie Gifford and 10% of the portfolio into the Diversified Growth Fund also managed by Baillie Gifford. The investment strategy has also allocated a further 10% of the Fund to be invested via the LCIV into the Infrastructure Fund managed by Stepstone.

In addition, as the LCIV has an arrangement with Legal & General Investment Management Ltd (LGIM) the Fund also invests 30% of the portfolio in three index-tracking equity pooled units as well as 10% in an Index-Linked Gilts pooled units fund with LGIM. This means that 75% of the Fund is currently invested via the LCIV.

The Fund has made a commitment to invest into the Inflation Plus Fund through the LCIV. This will be funded by the transfer of assets from the bond mandate currently with Aberdeen Standard. Once this investment has been drawn-down, the Fund will be 85% funded via the LCIV.

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

In due course the LCIV expects to launch further products, including 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 over time via the LCIV. 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 LCIV.

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 holds the majority of its investments) to undertake appropriate monitoring of current investments with regards 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. As part of a review of the Investment Strategy, the Committee approved the switch of 50% of the index-tracking equity portfolio into a Low Carbon Fund as the Committee seeks to reduce the carbon footprint of the Fund without reducing the return on our investments.

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.

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 excise 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 LCIV are covered by the Responsible Investment Policy. Voting is delegated to the external managers and monitored on a quarterly basis. The LCIV 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 Legal & General are published on their website at https://documentlibrary.lgim.com/documentlibrary/library_55458.html

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 LCIV 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 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.

7. ADVICE TAKEN

The Fund has appointed Investment Advisers, Mercer Ltd, to provide guidance and advice to the Committee and Officers. In 2018/19 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 and contribution requirements of the Fund which influences the decisions regarding the investment strategy.

The Fund has appointed Northern Trust 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 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>Effective Decision Making</p> <p>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>Compliant</p> <p>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 can 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>Clear Objectives</p> <p>An overall investment objective(s) should set out for the scheme that takes account of the scheme’s liabilities, the potential impact on</p>	<p>Compliant</p> <p>The Committee receives presentations from the Fund’s Actuary on the funding position and changes affecting the Fund’s liabilities.</p>	

	Description of Principle	Redbridge Position	Further Development Opportunity
	local tax-payers, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	<p>The Committee also receives quarterly reports on the performance of the Fund against their respective benchmarks.</p> <p>The Fund's Advisers periodically provide reports to the 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>	
3	<p>Risks and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax-payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>Compliant</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>	
4	<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the</p>	Compliant	Development in line with changes in legislation

	Description of Principle	Redbridge Position	Further Development Opportunity
	<p>investments, investment managers and advisers.</p> <p>Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.</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 to ensure value for money in respect of its contracts.</p> <p>The contract for Actuarial services is subject to a separate tender process through the National Framework Agreement.</p> <p>The performance of the Investment Managers and assets held are monitored on a quarterly basis but with the emphasis is on the long-term investment objective as opposed to short-term market volatility.</p> <p>A review of the effectiveness of the investment strategy is undertaken as part of the Annual Business Plan to ensure that the strategy continues to meet the Fund's objectives.</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 Fund and the Committee along with the decisions that have been taken throughout the year.</p>	<p>concerning the governance of pension schemes. These changes seek to strengthen monitoring, decision-making and performance.</p>

	Description of Principle	Redbridge Position	Further Development Opportunity
5	<p>Responsible Ownership Administering Authorities should:</p> <ul style="list-style-type: none"> • Adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Investment Principles on the responsibility of shareholders and agents • Include a statement of their policy on responsible ownership should be included in the Statement of Investment Principles • Report periodically to scheme members on the discharge of such responsibilities. 	<p>Compliant</p> <p>The Committee encourage, rather than insist that the investment managers adopt the Institutional Shareholders' Committee Statement of Investment Principles. The Fund Managers, including the LCIV 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 Committee.</p> <p>All of the Fund's Investment Managers are signatories to the UK Stewardship Code.</p>	
6	<p>Transparency and Reporting Administering authorities should:</p> <ul style="list-style-type: none"> • 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. 	<p>Compliant</p> <p>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>	

	Description of Principle	Redbridge Position	Further Development Opportunity
	<ul style="list-style-type: none"> • Provide regular communication to scheme members in the form they consider most appropriate. 	<p>The Committee meetings are open to the public and agendas, papers and minutes are available on the Council's website – www.redbridge.gov.uk</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>	

PENSION FUND RISK AND CONTROLS

The Council evaluates the risks associated with the Pension Fund between the likelihood of the risk occurring versus the impact of the risk and this is rated using the following matrix:

		RISK MATRIX				
		1	2	3	4	5
LIKELIHOOD	5 LOW TO HIGH	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		IMPACT LOW TO HIGH				

PENSION FUND – KEY RISKS AND CONTROLS

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 (investment and operational), Demographic, and Regulatory & Governance.

C2. INVESTMENT RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Inappropriate long-term investment strategy. Asset Pooling –Strategic risk (pool does not offer products that matches strategy); Risk of over- capacity (performance deteriorates as manager is less nimble); Risk from transition costs (costs increase as asset transfer to the Pool, including the crystallising of any surplus/deficit); Political risk (such as pressure to invest in specific asset classes).	10	<p>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</p> <p>Consider measuring performance and setting managers’ target relative to absolute returns or a Liability Benchmark Portfolio and not relative to indices.</p> <p>Maintain a good relationship with the London CIV regarding existing and new investment products.</p> <p>Monitor performance of investment managers on the London CIV platform and review any developments that may affect future performance, such as the retirement of key personnel.</p> <p>Close working with Investment Advisers to ensure any strategic changes are implemented in a timely manner.</p>	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Fund assets fail to deliver returns in line with anticipated returns underpinning valuation of liabilities over the long-term.	12	<p>Seek to set anticipated long-term returns on a relatively prudent basis to reduce the risk of under-performance.</p> <p>Analyse each employers' funding position at three yearly valuations.</p> <p>Close working with Fund's Actuary and Investment Advisers to ensure investment strategy will achieve long-term investment objective.</p>	8
Fall in risk-free returns on Government bonds leading to rise in value placed on liabilities. This could have implication to Actuarial valuation results.	12	<p>Seek to undertake inter-valuation monitoring particularly for employers on short-term contracts to reduce risk of accrued deficits at end of contract. This is perhaps more significant for the small employers that would have difficulty in paying large deficits upon cessation.</p> <p>Some investment in bonds helps to mitigate this risk</p>	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Active investment manager under-performance relative to benchmark over medium term.	9	<p>Short term (quarterly) investment monitoring to analyse market performance and active managers relative to their index benchmark.</p> <p>Maintain good communications with London CIV and Fund Managers to identify cause of under-performance and determine whether Fund Manager has changed its investment philosophy and no longer meets our requirements.</p> <p>Supplement with an analysis of absolute returns against those under-pinning the valuation.</p>	6

C3. FINANCIAL RISKS - OPERATIONAL

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Strong reliance on external systems across all sections of Financial Services. Failure of systems could result in significant issues such as inability to make payments, process claims etc.	9	The Council's Business Continuity Procedures are reviewed periodically and aim to put measures in place to minimise the impact of system failure.	6
The Council is unable to recruit or retain experienced or suitably qualified staff to maintain service provision, leading to potential financial, regulatory and reputational issues. Failure to manage the costs of operating the various services provided to the Pension Fund within budget. Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk	12	<p>The Council has undertaken a review of the administration team and has regraded the posts to attract suitably experienced staff.</p> <p>The team have now recruited a manager, two experienced LGPS pension administrators as well as a pensions trainee.</p> <p>The Council maintains a relationship with the LPFA to provides assistance on specific projects when required.</p> <p>The Council maintains a policy of segregation of duties to reduce the risk of fraud.</p> <p>Monitor the cost of administering the pension fund and report of any variances to the Pension Fund Committee.</p> <p>The separate contracts for Investment Advice and Actuarial Services ensures the advice given and can subject to challenge.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Decisions made in respect of Financial Services, Treasury & Pensions can have a major financial impact on the Council and the Pension Fund. Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk.	8	<p>Corporate Finance is subject to regular review of its Treasury Management Practices by both internal and external auditors.</p> <p>Corporate Finance operates a policy of segregation of duties to reduce the risk of fraud.</p> <p>The pensioners payroll is managed by the pay and contracts team as opposed to the Pension Admin Team to avoid the risk of fraud.</p>	4
A serious breach of the Data Protection Act could result from a number of possibilities such as computer hacking, carelessness or loss of laptops.	10	<p>IT provides procedures and guidance to ensure employees remain compliant with the IT Policy on Cyber Security. Emailed sensitive data is sent via a secure system. The Council has a contract for the disposal of confidential waste.</p> <p>Ensuring appropriate access control measures are in place and monitoring all data sites and claims handling systems.</p> <p>Continuous monitoring and regular auditing.</p> <p>The Council uses a spam blocking service to minimise cyber disruption.</p> <p>The pension administration team are trained on Data Protection and GDPR.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Pension Overpayments arising due to the non-notification of death, re-employment or ceasing education.	6	Pension Administration Team work with NFI to identify cases. The Team are also signed up for "Tell Us Once", so that notifications of death are now no longer reliant just on notification by the next of kin. Timely notifications will reduce the risk of overpayments.	4
Poor administration due to inaccurate data being provided by employers and payroll providers giving rise to financial and reputational risk, actuary setting appropriate contribution rates, inaccurate benefit statements, overpayment of benefits.	16	<p>Work with employers to secure good quality data.</p> <p>Member self-service is in place and being actively promoted to enable members to update their records where appropriate and run their own "what if" calculations.</p> <p>Employers of the Fund need to understand the implications and consequences to the Fund and all the employers in the Fund from inaccurate data.</p> <p>Regular monitoring of data including contributions paid to ensure employers are using the correct contribution rate.</p> <p>Ensure employers are aware of the Administration Policy and seek to enforce the terms of Policy.</p>	9
Failure to comply with Auto-Enrolment.	6	Ensure good communication with employers particularly those with Open Schemes.	3

C4. FINANCIAL AND DEMOGRAPHIC RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Pay and price inflation significantly more than anticipated.	4	<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>Hold some investment in index-linked bonds to help mitigate the 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>	3
Insufficient funds to meet liabilities as they fall.	8	<p>Cash-flow is monitored monthly and remains with a net inflow position for the foreseeable future.</p>	3
Effect of possible increase in employer's contribution rate on service delivery and admission / scheduled bodies.	9	<p>Seek feedback from employers during triennial valuation process on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rates.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Orphaned employers give rise to added costs for the Fund.	4	<p>The Fund seeks a bond or 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>	3
Period of Paying Pensions Lengthening (longevity of pensioners increasing).	12	<p>Seek to set realistic longevity assumptions and consider some allowance for future increases in life expectancy.</p> <p>Fund Actuary monitors the combined experience of around 50 funds to look for early warnings of changes in longevity for setting assumptions.</p>	9
<p>Maturing Fund – the number of active contributing members declines relative to the number of retired employees.</p> <p>As pensionable pay decreases this has implications to the amounts paid to the Fund towards reducing the deficit.</p> <p>This can have significant implications to the smaller employers in the Fund, particularly as cessation valuations are required once an employer no longer has any active members.</p>	12	<p>Monitor as part of the valuation process.</p> <p>Give consideration to changing employer contributions to include a set of monetary value rather than just a percentage of pensionable pay.</p> <p>Consider inter-valuation reviews of the various employers particularly where active membership is rapidly decreasing.</p> <p>Discuss with Investment Advisers and Actuary regarding possible changes to the investment strategy.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
An employer in the Fund becomes financially unviable	3	<p>The LGPS Regulations require new employers to the Pension Fund to provide either a bond or guarantee to cover the potential risk of the employer becoming insolvent.</p> <p>A template evaluating the risks associated by each employer will be prepared and monitored regularly.</p>	2
Ill-health retirements significantly more than anticipated	9	<p>Monitoring of each employer's ill-health experience on an on-going 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 tiers. Arrangements are available for employers to take out insurance cover with an external provider.</p>	3

C5. REGULATORY AND GOVERNANCE RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
<p>Changes to Local Government Pension Scheme Regulations.</p> <p>Changes in national pension requirements and/or Inland Revenue rules.</p>	12	<p>Consider all consultation papers issued by the Government Departments and respond where appropriate.</p> <p>Ensure necessary training for the pension team and provide relevant information to employers</p> <p>Monitor the possible implications for the Fund and report where relevant.</p> <p>Consult with employers, where appropriate, on implications to changes in the LGPS Regulations.</p>	9
London Borough of Redbridge failing to comply with the code of practice of the Pension Regulator and recommendations by the Scheme Advisory Board.	3	<p>Monitor the Pension Regulator's Code of Practice.</p> <p>Consider all papers issued by the Scheme Advisory Board. The Local Pension Board has an oversight role in administration matters.</p>	2
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis.	6	Take advice from Fund Actuary on position of Fund prior to valuation and consideration of proposed valuation approach relative to anticipated Section 13 analysis.	3
London Borough of Redbridge is unaware of structural changes in an employer's membership or that the employer is closing to new entrants.	3	Contributions are monitored monthly and therefore any changes in contribution levels can be challenged.	2

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
<p>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.</p> <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p> <p>Actuarial or investment advice is not sought, or is not needed, or provide to be insufficient in some way.</p>	9	<p>Contributions are monitored monthly and therefore any changes in contribution levels can be challenged.</p> <p>The risk is mitigated by a prudent admissions policy which:</p> <ul style="list-style-type: none"> • Sets out the employer obligations clearly • Seeks a funding guarantee from another scheme employer, external body, or government. • Encourages the employer to take independent actuarial advice. • Requires vetting of financial standing. <p>Periodically review the value of the bond where appropriate.</p> <p>The Council maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>	6



LONDON BOROUGH OF REDBRIDGE

PENSION FUND

FUNDING STRATEGY STATEMENT

CONTENTS

Funding Strategy Statement

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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.

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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”). Where “the Council” is referred to throughout this document it is in its capacity as the Administering Authority of the Fund.

This FSS 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 2020.

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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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 Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

In the [Appendices](#) we cover various issues in more detail 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. some more details about the actuarial calculations required,
- F. a [glossary](#) explaining the technical terms occasionally used here.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix E).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding goal for that employer, i.e. the estimated 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 goal;
- Determine the timescale over which the employer should aim to achieve that funding goal. 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 goal over that timescale, allowing for various possible economic outcomes over that timescale. See [2.3](#) below, and the table in [3.3](#) and [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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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 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 Ministry of Housing, Communities and Local Government (MHCLG) regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally contractors that provide a service on behalf of a scheme employer. 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 calculated contribution rate vary for different employers?

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

1. The **funding goal** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding goal 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 **time horizon** required is the period over which the funding goal is achieved. 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 **likelihood of achieving** the funding goal 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 then, the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

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

2.5 How is a funding level 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 funding level and deficit/surplus 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, funding levels and deficits are short term, high level risk 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;

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- 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 time horizon.

The Council will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

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 time horizon relative to other employers, and/or a lower likelihood of achieving their funding goal. 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 goal, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the goal may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the MHCLG has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, and as the financial assumptions used for the formal 2019 valuation would suggest there is likely to be no impact on the value placed on the liabilities of the

Fund, the Fund has elected to make no allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

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 goal?
2. How long should the employer be permitted to reach that goal? This should be realistic but not so long that the funding goal is in danger of never actually being achieved.
3. What likelihood is required to reach that funding goal? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The 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 reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon to achieve full funding;
- adjust the required likelihood of meeting the funding goal;
- permit an employer to participate in the Fund's stabilisation mechanism;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding goal, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of result in a lower level of future investment returns on the deficit employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

- it may take longer to reach their funding goal, all other things being equal.

Below (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

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

3.3 The different approaches used for different employers

Type of Employer	Council	Academies	Designating Employers	Admission Bodies*
Funding Basis used (more details listed in Appendix D)	Ongoing participation basis, assumes long-term Fund participation		Ongoing participation basis, but may move to "gilts exit basis"	Ongoing participation basis but may use "gilts exit basis", assumes fixed contract term in the Fund
Primary Rate Approach	Refer to Appendix E - E2			
Stabilised contribution rate	Yes	No	No	No
Maximum Time Horizon	17 Years	17 Years	15 years or average future working lifetime if closed to new entrants	Outstanding contract term
Secondary Rate	% of payroll	% of payroll	Monetary amount	% of pay or fixed sum payment
Treatment of Surplus	Covered by stabilisation arrangement	Reflected in secondary rate	Contributions kept at Primary rate. Reductions may be permitted by the Council	Reduce contributions by spreading surplus over the remaining contract term
Likelihood of achieving full funding	66%	70%	66%	75%

* Where the Council recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for Admission Bodies (that are not a Transferee Admission Body) and Designating Employers closed to new entrants)

In the circumstances where:

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- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
 - the employer has no guarantor, and
 - the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the 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 2019 valuation exercise, 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 next formal 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 (c) (Maximum time horizon)

The maximum timescale starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 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 (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Council reserves the right to amend these rates between formal 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 (e) (Likelihood of achieving funding goal)

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

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix E.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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;

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- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
 - the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the 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 (g) (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, for the purpose of setting contribution rates, 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 after fully funding deferred and pensioner members. The asset allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. 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 calculated contribution rate will be based on the time horizon and likelihood of achieving funding goal outlined for Academies in the table in Section 3.3 above;
- v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change to reflect any amendments to MHCLG and/or DfE guidance or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a

guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

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

Admission Bodies (ABs): For all ABs, 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 \(j\)](#) below.

The above 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 (i) (New Admission Bodies)

A new AB 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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any cessation deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

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. Alternatively, letting employers and Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

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

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the 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 current Fund policy is that this is left as a discretion and may or may not be applied in any given case;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the 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, the Council will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Council will consider the extent of any surplus, the proportion of surplus arising

as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body and any other factors the Council deems relevant. The Fund's Exit Credit Policy can be provided on request.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will make no allowance for the potential benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation and there will be other Fund administration expenses associated with the cessation, both of which the Fund may recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

Depending on the nature of the admission to the Fund, for 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 surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation 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 participation 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 or surplus. 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 may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund,

or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. These will be treated on a case-by-case basis.

3.4 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.

3.5 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.

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

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

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise its continued operation.

Each employer may elect to use external insurance which has been made available by the Fund.

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.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit 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 and a cessation deficit 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. 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 actuary's assumptions for future investment returns (described further in Appendix D) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore 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).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility asset values. However, the actuary takes a long-term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value. It reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

This additional MHCLG 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 achieve 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 aim for 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, MHCLG 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 is 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.

MHCLG 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 Council 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 July 2020 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 September 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at 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 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 (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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 (ISS) 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;
- MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

PENSION FUND RISK AND CONTROLS

The Council evaluates the risks associated with the Pension Fund between the likelihood of the risk occurring versus the impact of the risk and this is rated using the following matrix:

		RISK MATRIX				
		1	2	3	4	5
LIKELIHOOD LOW TO HIGH	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		IMPACT LOW TO HIGH				

PENSION FUND – KEY RISKS AND CONTROLS

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 (investment and operational), Demographic, and Regulatory & Governance.

C2. INVESTMENT RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
<p>Inappropriate long-term investment strategy.</p> <p>Asset Pooling –Strategic risk (pool does not offer products that matches strategy); Risk of over- capacity (performance deteriorates as manager is less nimble); Risk from transition costs (costs increase as asset transfer to the Pool, including the crystallising of any surplus/deficit); Political risk (such as pressure to invest in specific asset classes).</p>	10	<p>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</p> <p>Consider measuring performance and setting managers’ target relative to absolute returns or a Liability Benchmark Portfolio and not relative to indices.</p> <p>Maintain a good relationship with the London CIV regarding existing and new investment products.</p> <p>Monitor performance of investment managers on the London CIV platform and review any developments that may affect future performance, such as the retirement of key personnel.</p> <p>Close working with Investment Advisers to ensure any strategic changes are implemented in a timely manner.</p>	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Fund assets fail to deliver returns in line with anticipated returns underpinning valuation of liabilities over the long-term.	12	<p>Seek to set anticipated long-term returns on a relatively prudent basis to reduce the risk of under-performance.</p> <p>Analyse each employers' funding position at three yearly valuations.</p> <p>Close working with Fund's Actuary and Investment Advisers to ensure investment strategy will achieve long-term investment objective.</p>	8
Fall in risk-free returns on Government bonds leading to rise in value placed on liabilities. This could have implication to Actuarial valuation results.	12	<p>Seek to undertake inter-valuation monitoring particularly for employers on short-term contracts to reduce risk of accrued deficits at end of contract. This is perhaps more significant for the small employers that would have difficulty in paying large deficits upon cessation.</p> <p>Some investment in bonds helps to mitigate this risk</p>	8

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Active investment manager under-performance relative to benchmark over medium term.	9	<p>Short term (quarterly) investment monitoring to analyse market performance and active managers relative to their index benchmark.</p> <p>Maintain good communications with London CIV and Fund Managers to identify cause of under-performance and determine whether Fund Manager has changed its investment philosophy and no longer meets our requirements.</p> <p>Supplement with an analysis of absolute returns against those under-pinning the valuation.</p>	6

C3. FINANCIAL RISKS - OPERATIONAL

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Strong reliance on external systems across all sections of Financial Services. Failure of systems could result in significant issues such as inability to make payments, process claims etc.	9	The Council's Business Continuity Procedures are reviewed periodically and aim to put measures in place to minimise the impact of system failure.	6
<p>The Council is unable to recruit or retain experienced or suitably qualified staff to maintain service provision, leading to potential financial, regulatory and reputational issues.</p> <p>Failure to manage the costs of operating the various services provided to the Pension Fund within budget.</p> <p>Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk</p>	12	<p>The Council has undertaken a review of the administration team and has regraded the posts to attract suitably experienced staff.</p> <p>The team have now recruited a manager, two experienced LGPS pension administrators as well as a pensions trainee.</p> <p>The Council maintains a relationship with the LPFA to provides assistance on specific projects when required.</p> <p>The Council maintains a policy of segregation of duties to reduce the risk of fraud.</p> <p>Monitor the cost of administering the pension fund and report of any variances to the Pension Fund Committee.</p> <p>The separate contracts for Investment Advice and Actuarial Services ensures the advice given and can subject to challenge.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Decisions made in respect of Financial Services, Treasury & Pensions can have a major financial impact on the Council and the Pension Fund. Lack of adequate or inappropriate professional advice on strategies as well as decisions taken could impact on the level of financial and reputational risk.	8	<p>Corporate Finance is subject to regular review of its Treasury Management Practices by both internal and external auditors.</p> <p>Corporate Finance operates a policy of segregation of duties to reduce the risk of fraud.</p> <p>The pensioners payroll is managed by the pay and contracts team as opposed to the Pension Admin Team to avoid the risk of fraud.</p>	4
A serious breach of the Data Protection Act could result from a number of possibilities such as computer hacking, carelessness or loss of laptops.	10	<p>IT provides procedures and guidance to ensure employees remain compliant with the IT Policy on Cyber Security. Emailed sensitive data is sent via a secure system. The Council has a contract for the disposal of confidential waste.</p> <p>Ensuring appropriate access control measures are in place and monitoring all data sites and claims handling systems.</p> <p>Continuous monitoring and regular auditing.</p> <p>The Council uses a spam blocking service to minimise cyber disruption.</p> <p>The pension administration team are trained on Data Protection and GDPR.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Pension Overpayments arising due to the non-notification of death, re-employment or ceasing education.	6	Pension Administration Team work with NFI to identify cases. The Team are also signed up for "Tell Us Once", so that notifications of death are now no longer reliant just on notification by the next of kin. Timely notifications will reduce the risk of overpayments.	4
Poor administration due to inaccurate data being provided by employers and payroll providers giving rise to financial and reputational risk, actuary setting appropriate contribution rates, inaccurate benefit statements, over-payment of benefits.	16	<p>Work with employers to secure good quality data.</p> <p>Member self-service is in place and being actively promoted to enable members to update their records where appropriate and run their own "what if" calculations.</p> <p>Employers of the Fund need to understand the implications and consequences to the Fund and all the employers in the Fund from inaccurate data.</p> <p>Regular monitoring of data including contributions paid to ensure employers are using the correct contribution rate.</p> <p>Ensure employers are aware of the Administration Policy and seek to enforce the terms of Policy.</p>	9
Failure to comply with Auto-Enrolment.	6	Ensure good communication with employers particularly those with Open Schemes.	3

C4. FINANCIAL AND DEMOGRAPHIC RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Pay and price inflation significantly more than anticipated.	4	<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>Hold some investment in index-linked bonds to help mitigate the 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>	3
Insufficient funds to meet liabilities as they fall.	8	<p>Cash-flow is monitored monthly and remains with a net inflow position for the foreseeable future.</p>	3
Effect of possible increase in employer's contribution rate on service delivery and admission / scheduled bodies.	9	<p>Seek feedback from employers during triennial valuation process on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rates.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
Orphaned employers give rise to added costs for the Fund.	4	The Fund seeks a bond or guarantor to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.	3
Period of Paying Pensions Lengthening (longevity of pensioners increasing).	12	Seek to set realistic longevity assumptions and consider some allowance for future increases in life expectancy. Fund Actuary monitors the combined experience of around 50 funds to look for early warnings of changes in longevity for setting assumptions.	9
<p>Maturing Fund – the number of active contributing members declines relative to the number of retired employees.</p> <p>As pensionable pay decreases this has implications to the amounts paid to the Fund towards reducing the deficit.</p> <p>This can have significant implications to the smaller employers in the Fund, particularly as cessation valuations are required once an employer no longer has any active members.</p>	12	<p>Monitor as part of the valuation process.</p> <p>Give consideration to changing employer contributions to include a set of monetary value rather than just a percentage of pensionable pay.</p> <p>Consider inter-valuation reviews of the various employers particularly where active membership is rapidly decreasing.</p> <p>Discuss with Investment Advisers and Actuary regarding possible changes to the investment strategy.</p>	6

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
An employer in the Fund becomes financially unviable	3	<p>The LGPS Regulations require new employers to the Pension Fund to provide either a bond or guarantee to cover the potential risk of the employer becoming insolvent.</p> <p>A template evaluating the risks associated by each employer will be prepared and monitored regularly.</p>	2
Ill-health retirements significantly more than anticipated	9	<p>Monitoring of each employer's ill-health experience on an on-going 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 tiers. Arrangements are available for employers to take out insurance cover with an external provider.</p>	3

C5. REGULATORY AND GOVERNANCE RISK

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
<p>Changes to Local Government Pension Scheme Regulations.</p> <p>Changes in national pension requirements and/or Inland Revenue rules.</p>	12	<p>Consider all consultation papers issued by the Government Departments and respond where appropriate.</p> <p>Ensure necessary training for the pension team and provide relevant information to employers</p> <p>Monitor the possible implications for the Fund and report where relevant.</p> <p>Consult with employers, where appropriate, on implications to changes in the LGPS Regulations.</p>	9
London Borough of Redbridge failing to comply with the code of practice of the Pension Regulator and recommendations by the Scheme Advisory Board.	3	<p>Monitor the Pension Regulator's Code of Practice.</p> <p>Consider all papers issued by the Scheme Advisory Board. The Local Pension Board has an oversight role in administration matters.</p>	2
Time, cost and/or reputational risks associated with any CLG intervention triggered by the Section 13 analysis.	6	Take advice from Fund Actuary on position of Fund prior to valuation and consideration of proposed valuation approach relative to anticipated Section 13 analysis.	3
London Borough of Redbridge is unaware of structural changes in an employer's membership or that the employer is closing to new entrants.	3	Contributions are monitored monthly and therefore any changes in contribution levels can be challenged.	2

Description of Risk	Summary of Control Mechanisms		
	Inherent Risks		Residual Risk
<p>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.</p> <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p> <p>Actuarial or investment advice is not sought, or is not heeded, or provide to be insufficient in some way.</p>	9	<p>Contributions are monitored monthly and therefore any changes in contribution levels can be challenged.</p> <p>The risk is mitigated by a prudent admissions policy which:</p> <ul style="list-style-type: none"> • Sets out the employer obligations clearly • Seeks a funding guarantee from another scheme employer, external body, or government. • Encourages the employer to take independent actuarial advice. • Requires vetting of financial standing. <p>Periodically review the value of the bond where appropriate.</p> <p>The Council maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>	6

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. 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 funding goal and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding goal at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose, the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding goal is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.

Details on the ESS assumptions and funding goal assumptions are included below (in D2 and D3 respectively).

D2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson’s ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

D3 What assumptions are used in the funding goal?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding goal). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk-free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding goal.

Funding basis	Ongoing participation basis	Low risk exit basis
Employer type	All employers except closed Admission Bodies with no guarantor	Admission Bodies with no guarantor
Investment return assumption underlying the employer's funding goal (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

D4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding goal

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. 1% below the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 1.0% (equivalent to the Consumer Prices Index (CPI) inflation assumption). This is unchanged from the previous valuation, which assumed a blended assumption equal to CPI.

b) Pension increases

Since 2011 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.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 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 updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding goal (all other things being equal).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding goal 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 – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding goal for that employer, i.e. the estimated 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 goal;
2. Determine the time horizon over which the employer should aim to achieve that funding goal. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding goal over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix D.

E1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a. the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see E2 below); plus
- b. an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see E3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

E2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding goal for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix D. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding goal (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

E3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding goal assumptions (see Appendix D).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding goal relating to combined past and future service benefit accrual, including accrued asset share (see E5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") as noted in E2.

E4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding goal, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding goal.

E5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

E6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. For more details (see 2.3).
Covenant	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.
Designating Employer	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.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding goal values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding goal at the end of the employer's time horizon. The main assumptions will relate to level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding goal, whereas more optimistic assumptions will give a lower funding goal.
Gilt	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 are also used in funding as an objective measure of a risk-free rate of return.
Guarantee guarantor	/ 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 covenant to be as strong as its guarantor's.
Letting employer	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.
LGPS	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 100 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.

Maturity	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.
Members	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).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix E for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , 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 maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . 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 period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees 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).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . See Appendix E for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too.