PENSION POLICY & INVESTMENT COMMITTEE
Thursday, 27 February 2020 at 9.30 am
Room 6, Civic Centre, Silver Street, Enfield, EN1 3XA

Contact: Penelope Williams
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PENSION POLICY & INVESTMENT COMMITTEE

Thursday, 27th February, 2020 at 9.30 am in the Room 6, Civic Centre, Silver Street, Enfield, EN1 3XA

Membership:

Councillors: Tim Leaver, Claire Stewart (Associate Cabinet Member (Enfield West)), Yasemin Brett, Ergun Eren, Doug Taylor and Terence Neville OBE JP

AGENDA – PART 1

1. WELCOME AND INTRODUCTION (2 MINUTES)

2. DECLARATION OF INTERESTS (3 MINUTES)

Members are asked to declare any disclosable pecuniary, other pecuniary or non-pecuniary interests relating to items on the agenda.

3. MINUTES FROM THE LAST MEETING (5 MINUITES)

To receive and agree the minutes from the meeting held on 21 November 2019.

4. STANDING ITEMS (5 MINUTES) (Pages 1 - 10)

a. Pensions Board Feedback – Verbal update
b. Risk Management Policy and Register (Disproportionate investment holdings)

(Report No: 228)

5. RBC SUSTAINABLE EQUITY FUND (20 MINUTES)

To receive a presentation from the fund manager.

6. INVESTMENT STRATEGY REVIEW PLAN WITH ESG CONSIDERATIONS (15 MINUTES) (Pages 11 - 56)

To receive a report from Bola Tobun (Finance Manager – Pensions and Treasury) on the Investment Strategy Review plan with EXSG considerations and an update on Enfield Pension Fund Investments Beliefs.

(Report No: 227)

7. QUARTERLY PERFORMANCE REPORT (10 MINUTES) (To Follow)

To receive the quarterly performance report (up to 31 December 2019) from Bola Tobun (Finance Manager – Pensions and Treasury).

(Report No: 230)

8. LCIV (LONDON COLLECTIVE INVESTMENT VEHICLE QUARTERLY UPDATE (5 MINUTES) (Pages 57 - 68)

To receive a quarterly update on the LCIV (London Collective Investment Vehicle).

(Report No: 224)

9. PROCEDURES FOR RECORDING AND REPORTING BREACHES OF THE LAW (5 MINUTES) (Pages 69 - 96)

To receive a report for considering and for requesting approval of a new procedure for recording and reporting breaches of the law from Bola Tobun (Finance Manager – Pensions and Treasury).

(Report No: 226)

10. CONFLICT OF INTEREST POLICY (5 MINUTES) (Pages 97 - 106)

To receive a report for approval of the Conflict of Interest Policy from Bola Tobun (Finance Manager – Pensions and Treasury).

(Report No: 223)

11. TRAINING AND DEVELOPMENT POLICY, MEMBER TRAINING NEEDS ANALYSIS AND TRAINING RECORD LOG (5 MINUTES) (Pages 107 - 138)

To receive a report from Bola Tobun (Finance Manager – Pensions and Treasury)

(Report No: 229)

12. ENFIELD PENSION FUND BUSINESS PLAN AND PPIC WORK PLAN FOR 2020/21 (5 MINUTES) (Pages 139 - 150)

To receive information on the Enfield Pension Fund Business Plan and PPIC work plan for 2020/21.

(Report No: 222).

13. FINAL 2019 TRIENNIAL VALUATION RESULTS (5 MINUTES) (Pages 151 - 192)

To receive a report on the Final Triennial Valuation Results from Bola Tobun (Finance Manager – Pensions and Treasury).

(Report No: 225)

14. UPDATE ON INTERIM AUDIT (5 MINUTES) (To Follow)

To receive an update on the Interim Audit from Bola Tobun (Finance Manager – Pensions and Treasury)

(Report No: 231)

15. PROCUREMENT OF SERVICES (5 MINUTES)

To receive a verbal update on the Procurement of Services.

16. DATES OF FUTURE MEETINGS

To note the dates put forward for future meetings:

- Thursday 25 June 2020
- Thursday 24 September 2020
- Thursday 26 November 2020
- Thursday 25 February 2021

All meetings will take place in Room 2 at the Dugdale Centre between 9.30am and 12.30pm)

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MUNICIPAL YEAR 2019/2020 REPORT NO. 228

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
27th February 2020

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	Item: 4b
Enfield Pension Fund Quarterly Risk Register Update **Wards: All** **Key Decision No:**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

This report is a quarterly update of the London Borough of Enfield Pension Fund Risk Register.

A New/emerging risk has been added to the risk register since the previous review. This is a risk of Enfield Pension Fund or any other investor having disproportionate high level of investment relative to others in any one pooled funds invested in.

2. RECOMMENDATIONS

Members are recommended to note:

- the report and the attached Risk Register and
- consider and approve the new risk to the Risk Register.

3. BACKGROUND

Risk Management

3.1 Risk can be classified as having two dimensions that need to be assessed to determine the magnitude of the risk;

- Likelihood – the possibility that a risk will occur; and
- Impact – the consequences if the risk were to occur.

3.2 Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund in improved financial performance, better delivery of services, improved Fund governance and compliance. Reviewing the risk register on an annual basis, as a minimum, ensures that the Committee is able to fulfil its governance of the Pension Fund.

3.3 There are four general approaches to the treatment of risk: avoid by not engaging in an activity; reduce by the use of appropriate controls; transfer to an external party such as through the use of insurance or acceptance of risk by acknowledging that such risks cannot be avoided.

3.4 Broadly the types of risk that the Fund is exposed to fall into the following broad categories:

i) Financial – These relate to insufficient funding to meet liabilities, loss of money, poor financial monitoring with the consequence being the requirement for additional funding from the Council and other employers.
ii) Strategic – Failure to meet strategic objectives, such as performance targets, Funding Strategy Statement objectives.
iii) Regulatory – Regulatory changes, failure to comply with legislation, to meet statutory deadlines.
iv) Reputational – Poor service damaging the reputation of the Fund.
v) Operational – Data maintenance, service delivery targets.
vi) Contractual – Service providers, failure to deliver, effective management of contracts.
vii) Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

3.5 The risks in respect of the Pension Fund form part of the Council's broader risk register. The risk register is designed to be a tool to effectively identify, prioritise, manage and monitor risks for the Fund. The register allows each risk to be given a value depending on the likelihood of occurrence and the impact that it may have.

3.6 The Risk Register for the Pension Fund set out in the Appendix 2 of this report. It shows the Board the nature of the individual risks for the Fund, with matrix showing whether the risk fall into:

i) High risk (red) – need for early action / serious concern / intervention where feasible;
ii) Medium risk (amber) – action is required in the near future / significant concern;
iii) Moderate risk (yellow) – risk to be kept under regular monitoring / consequences of risk are of some concern; or
iv) Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

3.7 Where a risk has been categorised as high, controls have been put in place with the hope of mitigating the risk. In a number of cases, there are high risks over which the Fund can have little control or put sufficient mechanisms in place to negate such risks.

3.8 The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

3.9 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Executive Director of Resources, is the designated individual for ensuring the process outlined in the policy is carried out, subject to the oversight of the Pensions Policy & Investment Committee.

3.10 However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process. This process is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities.

3.11 All risks are regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible. An annual review of the Risk Register has been included within the business plan for the Pension Fund and this report will therefore continue to be a regular feature so that the Board and the Committee understands the risks involved in managing the Pension Fund and is able to therefore to make informed decisions.

3.12 The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.

3.13 Key risks - the Fund's key risks are as follows:

● Asset risk - failure to meet objectives through poor asset performance

● Funding risk - the growth rate of liabilities outstrips that of assets

● Poor membership data - poor administration or employer data provision resulting in inaccurate member records

Quarterly risk monitoring for December 2019

3.14 The Fund's key risks are mostly unchanged since the previous review; however, the likelihood rating of 'Poor membership data' has improved from 'almost certain' to 'likely'

3.15 New/emerging risks – one new risk has been added since the previous review. The risk of one investor having disproportionate level of funds relative to others in any pooled funds.

3.16 Deteriorating risks - no risk ratings have deteriorated since the previous review.

3.17 At Appendix 1 to this report. The register assesses risks relative to the target level of risk which the Fund is willing (or required) to accept. The risk register was last updated in January 2020.

3.18 Following the news on “Kent retirement fund faces £60m losses after Woodford fund collapse” The Executive Director of Resources wants to ensure that Enfield Pension Fund would not be faced with similar risk. Hence, we investigate all our investment positions.

3.19 The key conclusions from the investigation/analysis are the Enfield Pension Fund does not hold a disproportionate level of funds relative to others in any of its pooled funds. For example, the largest Fund holding as a percentage of the overall pooled fund is the CBRE Secured Long Income Fund where the Enfield Pension Fund holds c. 17% of the overall pooled fund. The pooled fund with the highest percentage holding of any one investor is the LCIV Emerging Market Equity Fund, where one investor currently holds c. 51% of the total value of the pooled fund.

4. ALTERNATIVE OPTIONS CONSIDERED

i) Not reviewing a policy in respect of risk management for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.

5. REASONS FOR RECOMMENDATIONS

i) The terms of reference for the Pension Committee set out a broad range of functions relating to the administration of the Pension Fund, including the function of acting as trustee of the Pension Fund within the terms of the statutory scheme.

ii) The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed on this area in accordance with both the CIPFA guidance and recognises the increased role of the Pensions Regulator following the Public Service Pensions Act 2013.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

i) There are no direct financial consequences arising as a result of this report. However, understanding the risks that are present in the Pension Fund and the management of those risks is essential to the overall strategic management of the Pension Fund and the governance role of this Board and the Committee. Not all risks are quantifiable from a financial perspective but could impact on the reputation of the Fund or of the Council.

ii) The costs of not adhering to either the legislation or indeed applying best practice could be significantly higher and pose risks to the financial management of the Pension Fund.

6.2 **Legal Implications**

i) Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules, and

ii) The Pensions Regulator is required to issue a code of practice for this under section 90A of the Pensions Act 2004. The Pensions Regulator has issued such a code. In accordance with the Code, identified risks should be recorded in a risk register and should be reviewed regularly. Paragraph 105 of the Code states that: -

a) “Scheme managers must establish and operate internal controls. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

b) They should seek advice, as necessary”. The Risk Register, Risk Management & Internal Controls Policy which is the subject of this report is designed to ensure compliance with the Council’s statutory duties with regard to managing risks related to the administration and management of the Pension Fund.

iii) In fulfilling its duties as administrator of the LB Enfield Pension Fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty).

7. KEY RISKS

i) Lack of robust governance inevitably involves a degree of risk and there are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on other aspects of the decision making process to lower risks elsewhere.

ii) Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

Background Papers – None

Appendices
Appendix 1 - The Risk Register as at 31st December 2019

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Enfield Pension Fund Risk Register as at 31/01/2020

Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors
PEN 01 - Fund assets fail to deliver returns in line with the anticipated return underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the Aon the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = 12 (Static)**	Bola Tobun/ PPIC
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk	The PPIC supported by our Advisors monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration. Officers will also closely monitor manager performance between the quarterly reviews The impact of each decision is carefully tracked against the Investment Strategy Statement for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = 8 (Static)**	Bola Tobun/ PPIC
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers where there are performance issues and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed	Strategic risk Likelihood = Low Impact = Small **Rating = 4 (Static)**	Bola Tobun/ PPIC

	4. Investment managers would be changed following persistent or severe underperformance			
PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. However, there is an increasing likelihood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = 6** **(Static)**	Bola Tobun/ PPIC
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future changes in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.	Mortality monitoring is undertaken by the Fund's actuary	Strategic risk Likelihood = Low Impact = Small **Rating = 2** **(Static)**	Bola Tobun/ PPIC
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary			Strategic risk Likelihood = Low Impact = Large **Rating = 8** **(Static)**	Julie Barker/Tim O'Connor
PEN 07- Failure to receive employers contributions	Receipt of contributions from employers are monitored monthly – for timelessness and accuracy. Escalation Procedure in place for late payments	All breaches are reported in the Fund's Annual report. There have been no major breaches for six years.	Strategic risk Likelihood = Low Impact = Small **Rating = 2** **(Static)**	Bola Tobun
PEN 08- Succession Planning	Loss of experience pensioner officer -	Recruitment completed – two experience officers appointed and in place by end of June and proper handover in place	Strategic risk Likelihood = Low Impact = Medium	Matt Bowmer

Enfield Pension Fund Risk Register as at 31/01/2020

			Rating = 6	
PEN 9	Impact of moving to a low carbon investment Strategy on the Fund's fiduciary duty	Assessing the impact of moving the index to a low carbon passive index and assessing the long-term implications over short term costs.	Strategic risk Likelihood = High Impact medium **Rating = 12 (New)**	Bola Tobun PPIC
PEN 10	Impact of the McCloud Judgement on the 2019 valuation process – could increase employers % contribution by up to 0.9%	Working with the Fund's actuary to mitigate the impact of this judgement.	Strategic risk Likelihood = High Impact = Large **Rating = 16 (New)**	Bola Tobun
PEN 11	Impact of having disproportionate investment holdings	Working with the Fund's Investment Consultant to monitor and mitigate possible impact of this occurrence.	Strategic risk Likelihood = medium Impact = Large **Rating = 12 (New)**	Bola Tobun PPIC

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MUNICIPAL YEAR 2019/2020 REPORT NO. 227

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
27th February 2020

REPORT OF:
Executive Director of Resources

Contact officer and telephone number:

Bola Tobun – 020 8379 6879
E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part:1	**Item: 6**

Subject: Investment Strategy Review Plan with ESG Considerations and An Update on Investment Beliefs for Enfield Pension Fund

Wards:

Key Decision No:

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

1.1 The Local Government Pension Scheme (LGPS) Management and Investment of Funds Regulations 2016 requires the Enfield Pension Fund to publish an Investment Strategy Statement (ISS).

1.2 This report also provides a summary of the need to review the investment strategy following a Triennial Actuarial Valuation outcome and in light of current investment climate and issues.

1.3 The review will encompass an asset liability study which assesses the suitability of alternative investment strategies for the pension fund's liability profile; the longer the term until pensions become payable the higher the investment risk which can be accommodated by the fund.

1.4 This would be supplemented by a sophisticated modelling exercise which will set out the risk/ reward trade-off for alternative investment strategies.

1.5 The current ISS is attached, which sets out the Pension Fund's current policy on investment, risk management, LGPS pooling and ethical, social and governance (ESG) issues, for both its own investments and those being managed through the London Collective Investment Vehicle (LCIV).

1.6 The members of the Committee had several workshops, considering and deliberating on the Fund's approach to responsible investment practices and ways to increase the level of engagement on environmental, social and governance issues in relation to the management of the Fund investments. The outcome of their deliberations is the draft investments beliefs articulated for the Fund and is attached to this report to be formally approved at this meeting and be adopted as the core part of the Fund's investment strategy going.

1.7 The Fund has commissioned TruCost to carry out a carbon risk audit in order to measure the Fund's carbon footprint and exposure to future CO_2 emissions. The outcome of this analysis to be considered at this meeting.

2. RECOMMENDATIONS

The Pension Policy & investment Committee is recommended to:

i. Consider and approve the draft Investment Beliefs for the Enfield Pension Fund, attached as Appendix 1;

ii. Note, consider and comment on the current Investment Strategy Statement (ISS) attached as Appendix 2 and to delegate authority to the Director of Finance in consultation with the Chair to publish the revised ISS once updated with the approved strategy changes and the approved investment beliefs;

iii. Note, consider and comment on AON's case for an Investment Strategy Review attached to this report as Appendix 3;

iv. Consider and approve **moving all the Fund's passive equity** exposure to track a Low Carbon Index Strategy;

v. Consider options for an initial active investment of approximately 5% of the Fund total assets in a sustainable or fossil fuel free global equity mandate and another 5% of the Fund total assets to be consider for a renewable energy/clean energy fund(s), given the right risk/return profile. Investment in such a fund would demonstrate the Fund's commitment to transition into low carbon economy;

vi. Maintain the Fund's current engagement activities which the Local Authority Pension Fund Forum (LAPFF) carry out on behalf of the Fund;

vii. Consider initiating a programme where the Fund could engage with investee companies (through its managers, the London CIV or possibly directly) on ESG issues;

viii. Following the result of the carbon risk audit carried out by TruCost using the Fund valuation position as at 30th September 2019, to consider setting 2 year and 5 year targets to reduce the carbon footprint of the Fund; and

ix. Agree to monitor carbon risk annually by using a specialist contractor to conduct and assess the progress being made against the Fund's target to reduce the exposure to future CO_2 emissions.

3. BACKGROUND

3.1 The Investment Strategy Statement (ISS) sets out the requirements of the Local Government Pension Scheme (LGPS) legislation and the Fund current Investment Beliefs. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement.

3.2 The six main objectives of the legislation are then detailed in relation to Enfield Pension Fund policies and strategies. These are:

i) Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments. This sets out how the investment strategy deals with diversification and return to meet the long term objectives of the fund;

ii) Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment. This sets out how the Committee assesses the suitability of investments and measures their suitability;

iii) Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed. This sets out how the Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;

iv) Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles. This sets out the Committee's approach to LGPS pooling and also what the LCIV can offer in terms of investment opportunities;

v) Objective 7.2(e): How environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. This sets out how the Fund meets these obligations, and also how potential investments with the LCIV will comply with these obligations;

vi) Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments. This sets out how the Fund meets these obligations and also how potential investments with the LCIV will be dealt with.

3.3 The ISS also deals with the Funds compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS, shown as Appendix 2 of the ISS. These six principles cover a range of factors as follows:

i) Effective decision-making
ii) Clear objectives
iii) Risk and Liabilities
iv) Performance Assessment
v) Responsible Ownership
vi) Transparency and Reporting

3.4 "Under Regulation 7(6) and (7), the Investment Strategy Statement must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years." The statement was last reviewed August 2019 and approved by the Committee at their November 2019 meeting as part of Enfield Pension Fund Annual Report for 2018/19. The ISS is currently in line with the Fund current investment strategy.

3.5 Following the meeting of 5th September 2019, the Committee agreed to have additional meetings to meet in order to develop a policy statement regarding the London Borough of Enfield' approach to Environmental, Social and Governance (ESG) issues (including carbon intensive companies/investments) with a view to include as a section within the Fund's Investment Strategy Statement (ISS), to demonstrate a commitment to managing ESG issues (including carbon risk). Attached as Appendix 1 to this report is Enfield Pension Fund, Draft Investment Beliefs.

3.6 This report also sets out the need to review the investment strategy in light of Pension Fund Triennial Actuarial Valuation outcome.

3.7 The Triennial Valuation cycle provides a good point at which to review the investment strategy as the Fund will have a current valuation of the liabilities of the Fund. The changes in funding level between one valuation and the next is effectively the best measure of how the Fund's liabilities are developing in comparison to changing bond yields in the market; widely considered to be the best measure of asset return that match those of the Pension Fund liabilities.

3.8 The outcome of Enfield Pension Fund of 103% funding level has put the Fund in a favourable position and it is worth noting that the strong 2016-2019 asset performance was due to high exposures to (strongly performing) overseas equities. The high recent asset growth also leads to lower return expectations hence higher primary contribution.

3.9 The Fund's current investment strategy was agreed following the review in 2017, and although the strategy has been revised a number of times since it was implemented the overall balance between growth seeking assets (60%) and lower risk matching assets (40%) has remained broadly similar to that agreed in 2017.

3.10 The Fund is currently starting a procurement exercise for the Fund's Investment consultant and it is intended that the successful provider will be commissioned to undertake an investment review shortly after appointment.

3.11 The successful investment consultant will look at a range of investment issues and also work closely with the Fund actuaries to model the probability of the Fund achieving its funding targets with a range of investment strategies and use these to formulate a de-risking strategy. The Fund at this time maintains a relatively medium risk strategy (60% growth assets) on the basis that growth assets will deliver outperformance enabling the Fund to close the funding gap over a period of time.

3.12 The investment review will also provide the Committee with an update on the Fund's existing manager's performance.

3.13 There are many advantages in undertaking a review of the investment strategy, which can be summarised as follows:

a) It will define the parameters within which the investment decisions can be made i.e. eliminates the extremes.

b) Provide a context for Members to consider the risk they are willing to assume for investment issues.

c) Provide an assessment of whether the current strategy which was devised in 2017 remains appropriate in the current investment environment.

Current ISS and Responsible Investment Approach

3.14 The Fund's Responsible Investment policy is set out in section 13 to 16 of the ISS. The purpose of this policy document is to lay out the Fund's approach to how environmental, social and governance (ESG) considerations are considered in the selection, non-selection, retention and realisation of investments.

3.15 No consistent definition of Responsible Investment exists, the term has a variety of meanings. The UN Principles for Responsible Investment (PRI) uses a definition of responsible investment that emphasises the health of the market as a whole: "Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."

3.16 The subject of Responsible Investment has been considered by the Pensions Committee on a number of occasions. The Committee has aimed to reduce the extent to which the Fund is exposed to financial risk associated with Environmental, Social and Governance (ESG) factors but also to effectively express its views on ESG issues through the exercise of the Fund's voting rights and enhance the Fund's approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how RI approaches can best be delivered through the new pooled structures.

3.17 The Fund currently asked the fund managers to supply information on their engagement in reducing carbon foot prints of the fund and this information will be made available on a quarterly or yearly basis at the Pension Policy and Investment Committee quarterly meeting.

3.18 The Fund through its participation with Local Authority Pension Fund Forum (LAPFF) supported progress towards an orderly transition to a low carbon economy. This is by actively working with other asset owners, fund managers, companies, academia, policy makers and others in investment industry.

3.19 Officers meet with a wide range of managers on a regular basis to gather intelligence and to explore investment ideas. Some of the managers have assisted officers in building their understanding of the facts, figures and risks around climate change and carbon intensive investments.

Carbon and Environmental Footprints Analysis

3.20 Further to the Council declaration of being carbon neutral by 2030, the Committee embraced this initiative and started discussion on how to align this agenda in their decision making process for the pension fund lining this up with their fiduciary duty as the quasi trustee of the Fund.

3.21 At the Committee meeting of 5th September 2019, it was recommended and discussed with the Committee the need to measure and monitor carbon risk within the London Borough of Enfield Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund at an estimated cost of between of £5k to £20k.

3.22 Measuring emissions and climate risks of the Fund, will allow the Committee and the Fund to establish a base of data from which to examine its investment assumptions and test investment processes. It will also enable the Fund to make an assessment on an ongoing basis as to how its exposure to climate change risks progresses over time. This carbon foot print analysis work has started, just after the November 2019 Committee meeting and the initial results will available to be presented at the February Committee meeting. The analysis outcome would have been included with this report, unfortunately, at the time of writing this report, this result is not available.

3.23 During the investment strategy review for the Fund, the Investment consultant would look into appropriate and relevant targets worth setting to monitor the progress of strategy implemented to decarbonise the Fund. This will enable us to review target periodically to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

3.24 The carbon footprint analysis measures the greenhouse gas emissions produced within each equity portfolio (per tonnage) in relation to their annual revenue, demonstrating how much of their return is determined by activities which emit carbon dioxide to enables comparison between companies, irrespective of size or geography.

3.25 The Equity mandates of the Fund is currently undergoing carbon footprint analysis of each individual asset holding, encompassing both direct and first tier indirect impacts. Direct impacts are those which result from a company's own vehicles, operations and waste. First tier indirect impacts occur as a result of a company procuring services from within their supply chain.

3.26 Currently the overwhelming majority of carbon footprint measures rely on a what are known as Scope 1 and Scope 2 emissions:

- Scope 1 – all direct greenhouse gas ('GHG') emissions owned or controlled by a business e.g. factory, buildings, company vehicles etc.
- Scope 2 – all indirect GHG emissions associated with consumption off-site e.g. purchased electricity

3.27 It is estimated that approximately half of Scope 1 & Scope 2 emissions are directly reported, and the balance is estimated. Scope 3 emissions cover

GHG sources not owned or controlled by a business e.g. raw material production, non-owned distribution, end use of products etc. Currently a lack of definition and data prevents Scope 3 emissions being measured in a meaningful way.

AON's Illustrative impact on equity portfolio volatility

3.28 The Fund Investment Consultant advised If we focus solely on maximizing carbon reduction there is a risk of unintended financial consequences. For example, in equities the variability of returns could increase significantly, as shown by looking at the illustrative tracking errors below:

Strategy	Current tracking error	Low carbon / environmental tracking error	Current outcome range	Low carbon / environmental outcome range
Passive equity (vs Low Carbon)	+/- 0.05%	+/- 0.5%	**+/- £90,000**	**+/- £900,000**
Passive equity (vs ex-Fossil Fuels)	+/- 0.05%	+/- 0.9%	**+/- £90,000**	**+/- £1,600,000**
Active equity (vs active environmental strategy)	+/-3.0%	+/- 7.0%	**+/- £9,300,000**	**+/- £21,800,000**

Historic tracking errors and possible impact are illustrative only and do not constitute a forecast
Note 1: Based on passive equity £179m and active (listed) equity at £311m at 30 June 2019
Note 2: Tracking error relative to a standard global equity benchmark
Note 3: Assume passive equity switch to MSCI ex-Fossil Fuels benchmark
Note 4: Assume active equity switch to a single environmental focused strategy (not just low carbon)

3.29 These figures look at the possible impact of solely focusing on maximising carbon reduction / environmental focus. The consultant recognised if we take a more measured approach, not overly focused on exclusion, they believe that any increase in volatility can be reduced.

3.30 The consultant also commented that the impact of pursuing lower carbon exposure across other asset classes would vary considerably and is likely to be harder to implement and measure.

3.31 It is also worth noting that when an investor makes changes to the funds they invest in, there are two elements of cost that need to be considered:
- Costs of change (i.e. disinvesting from the current funds and investing in the new funds)
- Ongoing costs (i.e. change in annual management charge between the current funds and the new funds)

3.32 The consultant produced the below estimated costs of change for switching the Fund current passive equity assets with BlackRock to a low carbon alternative:

	Estimated Costs of change	Estimated Ongoing Costs
BlackRock passive equities	c. £560k	c. £18k p.a. (increase from c. £9k p.a.)

Figures are illustrative
Note 1: Based on passive equity £168m
Note 2: Low carbon alternative used is BlackRock ACS World Low Carbon Equity Tracker Fund Class X2 as an illustration
Note 3: Dealing spreads, used for costs of change, based on data as at 21 August 2019 for current funds / 23 August for Low carbon alternative
Nore 4: Annual Management Charges, used for ongoing costs, exclude London CIV fees. Note that BlackRock have an LGPS only discounted fee

3.33 The consultant further stated they would expect as much as possible of the passive equity transition to be completed on an in-specie basis by the manager, which would **reduce** the estimated costs of change.

3.34 It is worth mentioning that ongoing costs increase when moving the traditional market capitalisation passive equity fund to a low carbon approach, as it requires a more specialist approach.

3.35 Costs of change would be higher in other asset classes, most notably property and alternatives. In addition, illiquid assets likely to have 'lock-in' periods where the money cannot be withdrawn and/or can only potentially be sold on a secondary market.

3.36 Currently 40% of the Fund total assets is invested in equity and approximately 15% are held as a passive equity mandates with performance target of tracking the FTSE All Share index. The passive mandates do have c.5% weightings (£9m) in Oil, Gas and consumable fuels as at 31st December 2019.

3.37 The manager, Blackrock managing our passive mandates do have some low carbon products that we can switch into and this would be at a cost. Legal and General Investment Management (LGIM) also have low carbon products. London CIV do have a relationship with these two managers and in the past had negotiated lower fees for Funds with passive mandates with the managers.

3.38 The Fund 15% allocation to a passive global equity mandate being managed by Blackrock tracking FTSE World Developed Index which means that the managers invest in all the shares within the opportunity set of this FTSE benchmark (i.e. the universe of the selected index). There are a number of pre-constructed indexes such as low carbon or others with a multi factor approach.

3.39 Factor Indexation: in this case although the investment is passive the index is constructed in such a way as to have exposure to a range of factors e.g. quality, low volatility, e.g. the Future World Fund which follows a multi factor approach and includes a carbon tilt overlay addressing ESG and tilts towards sustainable companies and excludes companies that are involved in the production of controversial weapons under international treaties.

3.40 ESG benchmark: There are some benchmarks constructed in such a way as to minimize ESG related risks (in particular carbon risk) which goes further than engagement and these funds track ESG focused indices e.g. the MSCI World Low Carbon Target Index Fund. As policymakers and governments place a greater focus on addressing climate change there is a financial risk that the oil companies, we invest in are unprepared for the transition to lower carbon economy and carbon pricing increases and fossil fuel assets become stranded. So MSCI and FTSE have developed indices that help to manage this risk. According to Mark Carney Governor of the Bank of England “The vast majority of carbon reserves are unburnable”

3.41 BlackRock and LGIM, Low Carbon Passive strategies are made available with reduced fee arrangements for LGPS funds. Officers have been working with the fund manager and the investment consultant over the past few months to identify suitable approach and strategies in an efficient cost-effective manner for the Fund with a view of implementing the appropriate strategy for the Fund by May 2020.

3.42 The table below illustrates how the World Low Carbon Target Index (recommended Fund's strategy) which the Committee should consider investing in, compares to the wider market cap index and other environmentally focused indices with regards to carbon intensity, carbon emissions and allocations to coal and fossil fuels.

	MSCI World Index	World ex Coal	World ex Fossil Fuels	World Low Carbon Leaders	World Low Carbon Target
	Previous Index	An Alternative	An Alternative	An Alternative	Fund's Strategy
Carbon Intensity (vs MSCI World Index)	100%	-4%	-19%	-50%	-64%
Potential Carbon Emissions (vs MSCI World Index)	100%	-7%	-96%	-52%	-83%
Coal Reserves (% index weight)	2.6%	0.0%	0.0%	1.0%	0.0%
Fossil Fuel Reserves (% index weight)	8.4%	8.0%	0.0%	5.5%	4.1%

3.43 The Low Carbon Target Index compares favourably versus other environmentally focused indices with regards to carbon intensity.

Renewable Energy

3.44 How do we define renewable energy? As the energy transition intensifies, definitions of renewable or clean energy strategies are starting to widen. Here is the current classification of renewable energy:

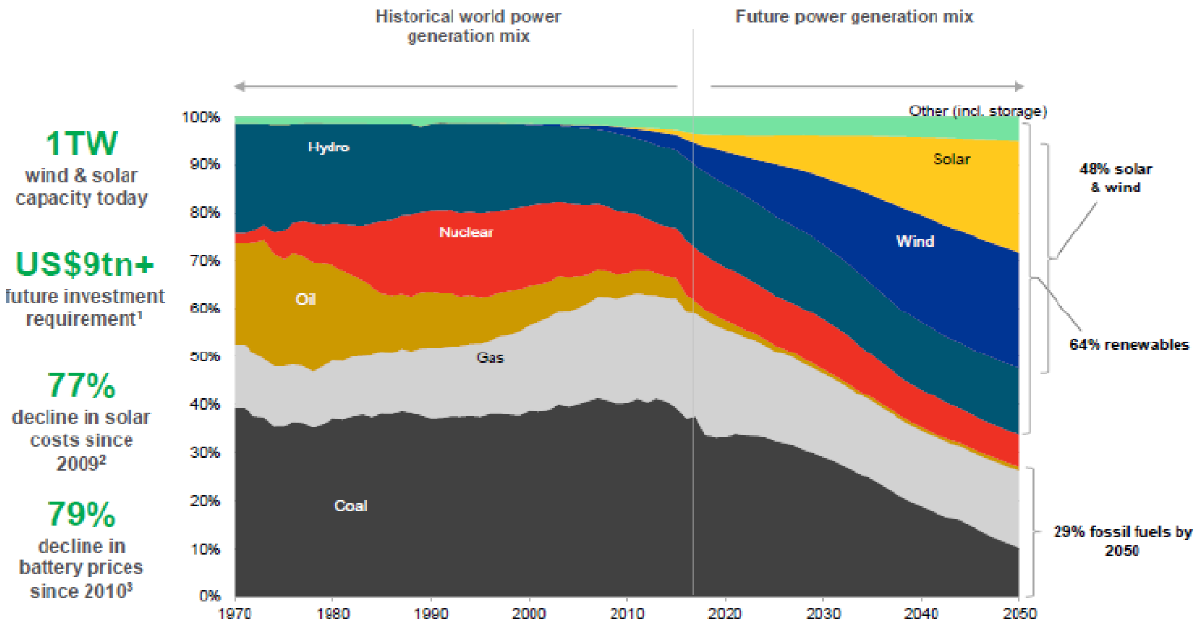
i) Traditional Strategies – On-Shore Wind, Solar, Off-Shore Wind and Hydro

ii) Emerging Investment Themes – Energy Efficiency, Energy from Waste, Combined Heat/Power, Plants & Gas Peaking, EV Charging and Sustainable Agric.

3.45 Further to the training Committee members have had, this is just a quick reminder that investing in renewable energy was once a small niche of the Infrastructure asset class, renewable energy investing has exploded in size and maturity with a universe of over 50 managers offering strategies dedicated to the sector.

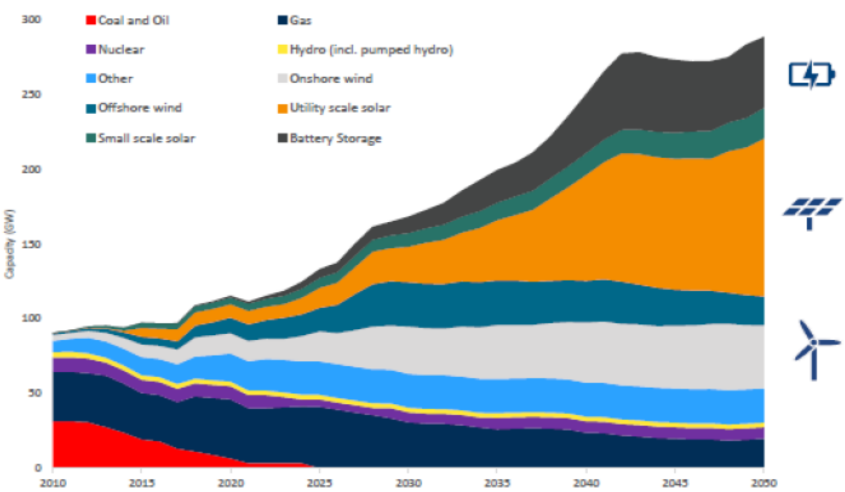
3.46 Despite the growing importance of renewables, some conventional power projects remain attractive. Given natural gas will remain an important “transition fuel”, gas-fired power stations operating favourable markets should remain attractive to infrastructure investors.

3.47 Motivation for renewable energy allocation is multi-faceted, but led by diversification, income generation and potential for return enhancement. And for Enfield Pension Fund focus to invest in renewable energy is to contribute to the Fund carbon intensity/exposure reduction as shown in the chart below, demonstrating from two-thirds fossil fuels to two-thirds renewables.



Source: BlackRock; bfinance research

…with renewables expected to be the dominant generation source in the UK



Source: BNEF; bfinance

Conclusion

3.48 It is recommended that Members should consider deploying some allocation or all the current allocation of passive equity investment to a low carbon index or other ESG/quality factor constructed index. This is because an allocation to a Low Carbon Index Target passive global equity fund is expected to reduce the carbon exposure of our Pension Fund allocation to this index compares to a standard global equity benchmark (MSCI ACWI), in some cases to as much as 70% reduction.

3.49 If the above is agreed, it is recommended that members delegate powers to the Executive Director of Resources and the Director of Finance in consultation with the chair and deputy chair of the PPIC to review and determine the most appropriate low carbon strategy benchmark to best place the funds and to determine the proportion.

3.50 Ongoing dialogue with the London CIV means that more focus will be given to Funds needs and sub-funds could be created to address this need. For example, the pool's infrastructure sub-fund now has a 25% target allocation to renewable energy, but this is not good enough for some pension funds already invested in broad infrastructure hence LCIV is looking into creating or introducing a dedicated renewable energy sub-fund on their platform. This is because about seven pension funds are seeking to invest independently of the pool into renewable energy funds.

3.51 LCIV is launching an exclusion version of their current Sustainable Equity Fund as they had strong lead interest in this investment. Expectation to launch this sub-fund is in early 2020.

3.52 If all the highlighted changes are implemented, the Investment Strategy Statement (ISS) will be review and the updated version will be brought to the Committee for an approval. The Council as the administering authority do have the responsibility of revising and updating the ISS with any material changes, such as changes to the investment beliefs; changes to the types of investment held; or the balance between the types of investments in the Fund.

3.53 Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions. This is an area in which further work will be undertaken over the coming months. We have been in contact with some of our managers to request more detailed reporting on environmental issues and will be looking at this in more detail in the near future.

3.54 Officers are also proposing to include in the quarterly monitoring pack a report which specifically would cover the engagement activities undertaken by LAPFF and the Fund's managers' responses to issues raised. Managers have been challenged and will continue to be challenged on their voting policies and the extent to which they are factoring in ESG in the company selections and increasing their approach to climate change issues.

3.55 Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance. The Fund continues to monitor ESG issues through the alerts issued by the LAPFF, a collection of Local Authority funds who, by acting collectively, can apply pressure to the management of companies. LAPFF has previously been involved with voting climate-change related resolutions and has invited its members to co-file. We will co-file these resolutions as part of LAPFF. Where our holdings in a company are through a pooled fund, we will make a public expression of support.

3.56 Officers strongly believe that engagement with fossil fuel companies via organisations such as LAPFF to influence their future strategies should continue alongside the reductions in stock holdings in such companies.

3.57 To reduce the Fund carbon intensity further, it is recommended that Committee consider options for an active investment of approximately 5% of the total Fund assets in a sustainable funds and another 5% in renewable energy or clean energy fund(s), given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to transition to low carbon economy.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 No alternatives have been considered at this stage. The Committee could decide to continue with its existing strategy.

5. REASONS FOR RECOMMENDATIONS

5.1 As the 2019 valuation outcome is out, it is appropriate to consider the approach to funding and employer contributions in order to consider whether the current approach is likely to remain so for the Fund and its employers.

5.2 The Committee's role means that they need to ensure that there are realistic strategies in place to meet funding goals, that strategies are affordable, prudent and provide stability for employers in the Fund. Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

a) This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund's funding gap.

b) The current Investment Strategy been implemented to maximise returns of Fund's assets within acceptable risk parameters and to facilitate a reduction in the burden of deficit funding that employers in the Fund are liable for.

c) The performance of the Fund’s strategy is monitored through a quarterly report that is presented to the Committee. Recent performances have been good and generally either in line with or exceeded target.

d) The consideration to invest in Low Carbon strategy is to reduce the Enfield Pension Fund exposure to carbon investments.

e) A carbon risk audit would highlight the operational carbon footprint and exposure to fossil fuel reserves of the Fund’s equity portfolio, setting out where the Fund is most exposed in terms of assets at risk of stranding. This would enable the committee to set a target in line with the revised investment strategy and review this target periodically to ensure that it remained consistent with the risks associated with investment in carbon assets and with the Committee’s fiduciary duties.

6.2 Legal Implications

a) The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. The LGPS (Management and Investment of Funds) Regulations 2016 require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State. In accordance with regulation 7(2)(e) the authority must set out in its Investment Strategy Statement, its policy on how social, environmental and corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

b) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, Regulation 11 requires Administering Authorities to formulate a policy for the investment of its fund money and be formulated with a view:

i) to the advisability of investing fund money in a wide variety of investments; and

ii) to the suitability of particular investments and types of investments.

c) The regulations further require the Administering Authority to invest in accordance with its investment policy, having obtained proper advice at reasonable intervals about its investments and considered that advice before making any decisions.

d) Statutory Guidance on preparing and maintaining an investment strategy statement was published on the 15th September 2016. Having a policy in place covering the authority’s approach to ethical, social and governance issues will enable to authority to meet its statutory duties in this regard. The recommendations discussed in this report are in line with both the Committee’s terms of reference and legal responsibilities.

7. KEY RISKS

a) To minimise risk the Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

b) The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

c) In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate.

d) The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

Background Papers
Enfield Pension Fund – Low Carbon Initiative

Appendices
Appendix 1 – Draft Investment Beliefs (Not for publication yet)
Appendix 2 - Enfield Pension Fund Current Investment Strategy Statement
Appendix 3 - Initial Investment Strategy Review discussions (Not for publication)

Officer contact details for documents:
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ENFIELD
Council

Appendix 2

London Borough of Enfield Pension Fund Investment Strategy Statement as at 31/03/19

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XY

www.enfield.gov.uk

Pension Policy and Investment Committee

INVESTMENT STRATEGY STATEMENT

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Enfield Pension Fund adopted by Enfield Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pension Policy & Investment Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority except for those matters delegated to other committees of the Council or to an officer."

1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers and the Pension Board. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

2. Statutory background

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

3. Directions by the Secretary of State

3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department of Communities and Local Government.

3.2 The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

4. Advisers

4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Policy & Investment Committee and Council officers such advice is taken from:

- Aon Hewitt Ltd – investment consultancy
- Independent consultant member with Fund management experience

- Actuarial advice, which can have implications for the investment strategy, is provided by Aon Hewitt Ltd.

5. Objective of the Fund

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

5.2 The target investment strategy is designed to have an expected return in excess of the discount rate while achieving a level of risk the Committee considers to be appropriate. The aim is to ensure contribution rates are set at a level to attain 100% funding within the timescale agreed with the Fund Actuary and set out in the Funding Strategy Statement.

6 Investment beliefs

6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk
- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised
- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is very long the time horizon of the investment strategy should be similarly long term
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to other asset classes
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Fund's projected cash flow requirements.

7.4 Following the triennial valuation in 2016 the Panel, as advised by Aon Hewitt, considered its investment strategy alongside its funding objective and agreed the following structure:

Asset Class	Target Weighting %	Expected Return (per annum)	Control Range
Equities (including Private Equity)	40	8-11%	30-50%
Bonds	24	4-5%	19-39%
Inflation protection	10		
Hedge Funds	10	9-11%	10-20%
Property (UK)	10	9%	5-15%
Infrastructure/PFI	6	9%	3-9%
Cash	-	-	-
Total	**100**		

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in "growth assets" i.e. those expected to generate 'excess' returns over the long term. The structure also includes an allocation to "matching" assets, such as index bonds, gilts and corporate bonds. The investments in property and infrastructure provide diversification whilst the hedge fund protects the Fund on the downside by targeting absolute returns. This strategy is aimed to provide in excess of the discount rate used to value liabilities in the triennial valuation.

7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, a rebalancing exercise is carried out to ensure that the allocation remains within the range set.

7.8 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Panel, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future. This approach was adopted following the 2013 triennial valuation.

7.9 The results of the 2016 valuation showed a 87% funding level which has since improved to 96%. The intention is for an Asset Liability Modelling exercise to be undertaken and the strategy reviewed over the final quarter of 2017. Investment Strategy Statement will subsequently be updated to reflect the outcome of this strategy review and to include the expected return and volatility of the investment strategy.

8 Asset classes

8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest, index linked and corporate bonds, hedge funds, infrastructure and property either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007"

8.3 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. property. The majority of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8.4 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets. The Fund retains sufficient cash to meet its liquidity requirements, and cash balances are invested in appropriate interest earning investments pending their use. The investment of these cash balances is managed internally.

9 Fund Managers

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

9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management.

9.3 The managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.4 The investment management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets.

9.5 As at the date of this ISS the details of the managers appointed by the Committee are set out in Appendix 1

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisory member. In addition, the Committee requires all managers to attend a separate manager day meeting twice a year, and officers meet each of the managers in the "alternate quarters" (i.e. when there is no "manager day" meeting) to review and scrutinise performance.

9.8 The Committee also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

10 Stock lending

10.1 The Committee's current policy is not to engage in stock lending.

11 Approach to risk

11.1 The Committee recognise a number of risks involved in the investment of the assets of the Fund.

11.2 Funding risks

i) As described by the investment objectives, the Fund invests in asset classes which are expected to demonstrate volatility when compared to the development of the Fund's liabilities. This policy is adopted in anticipation of achieving returns above those assumed in the actuarial valuation. The Committee considered a number of investment strategies with varying degrees of risk relative to the Fund's liabilities. In determining an appropriate level of risk (or expected volatility) the Committee considered:

a) The strength of the Employer's covenant and attitude to risk.
b) Contribution rate volatility.
c) Likely fluctuations in funding level.
d) The required return to restore the funding level over a set period in conjunction with the funding policy.
e) The tolerance to a deterioration in the funding level as a result of taking risk.
f) The term and nature of the Fund's liabilities.

ii) To monitor the volatility of the Fund's funding level and the success or otherwise of the investment decisions the Committee monitors on a regular basis:-

a) The return on the assets, the benchmark and the liabilities.
b) Estimated funding level and how it compares to the expected or targeted funding level.
c) The probability of the Fund achieving its long-term funding objectives.

11.3 Manager risks

The Committee monitors the managers' performance on a quarterly basis, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The Committee also examines the risk being run by each of the investment managers. In particular, the performance reporting reviewed by the Committee considers the achieved variation in returns between each manager's portfolio and its benchmark and compares the level of active manager risk and excess return of each manager against a universe of similar mandates and the benchmark.

11.4 **Liquidity risk**

The Committee have adopted a strategy that makes due allowance of the need for liquidity of the Fund's assets.

11.5 **Concentration risk**

The Committee have adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- by asset class (Global Equities, Diversified Growth Funds, Fixed Interest and Property)
- by region (UK, overseas)
- within asset classes, by the use of a range of products with different risk/return profiles

11.6 **Market risk**
The failure of investment markets to achieve the rate of investment return assumed by the Panel. This risk is considered by the Committee and its advisors when setting the Fund's investment strategy and on an ongoing basis.

11.7 **Operational risk**
The risk of fraud, poor advice or acts of negligence. The Committee has sought to minimise such risks by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

12 Approach to pooling

12.1 The Fund is a participating member in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

12.2 The Fund has already transitioned assets into the London CIV with a value of £52 million or 4.7% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund. The Fund also holds passive funds held with Blackrock life Funds which cannot be held in the CIV which the CIV has negotiated lower fees for CIV members this amounts to £236 million or 21.51% of the assets. Other assets will be transferred into the LCIV once appropriate funds are available.

12.3 Illiquid assets in infrastructure, private equity and property will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund.

13 Social, environmental and governance considerations

13.1 The Fund is committed to be a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

13.2 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.

13.3 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could 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 managers to integrate material Economic Social Governance (ESG) factors within its investment analysis and decision making.

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

13.5 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.

13.6 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.

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

14.1 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 interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising 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.

14.2 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.

14.3 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local

Authority Pension Fund Forum 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.

15 Stewardship

15.1 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the Principles of the Stewardship Code.

15.2 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 and more broadly.

15.3 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests. In addition, the Fund gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund's interest.

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16 Compliance with "Myners" Principles

16.1 In Appendix 2 are set out the details of the extent to which the Fund complies with the six updated "Myners" principles set out in the CIPFA publication "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

Appendix 1

Fund Manager Structure (This prescribed in the ISS regulations)
The fund manager structure and investment objectives for each fund manager (“mandates”) are as follows:

Fund manager	Investment objectives
Equities & Private Equity	
BlackRock Advisers UK Ltd (Passively Managed Global Equity, UK Equity and emerging Portfolios)	*To perform in line with the prescribed Equity and Bond indices.*
MFS (Actively Managed Global Equity Portfolio)	*To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.*
London CIV – Baillie Gifford (Actively Managed Global Equity Portfolio	*To outperform the MSCI World Index by 2% pa gross of fees over rolling three-year periods.*
London Collective Investment Vehicle (LCIV)	*Manages global equity mandates - Henderson, Baillie Gifford and Longview*
Adam Street Partners (Private Equity Portfolio)	*To outperform the MSCI World Index.*
Bonds	
BlackRock Advisers UK Ltd (Passively Managed Bond & Index linked Portfolios)	*To perform in line with the prescribed Bond indices.*
Insight Bond Fund Absolute bond return	*3 month LIBOR +4% per annum over rolling three period.*
Western Asset Management (Actively Managed corporate Bond Portfolio)	*To outperform the benchmark (composed of a mixture of bond indices) by 0.75% pa gross of fees over rolling three-year periods.*
Inflation Protection	
M&G Inflation Opportunities Fund	*To outperform the Retail Price Index by 2.5% per annum on a rolling five year basis.*
CBRE – Inflation protection illiquids	*UK LPI +2.5%pa over a rolloing 10 year period*
Property	
Brockton Opportunistic property	*15% net IRR and 1.5xnet multiple*

BlackRock Advisers UK Ltd (Actively UK Property Fund)Equity and emerging Portfolios)	*To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods..*
Legal & General Investment Management Ltd (Active UK Property Fund)	*To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods.*
RREEF Management (Active UK Property Fund)	*To achieve a return of at least 4.5% per annum, net of all fees and costs, above the UK Retail Prices Index over 5 to 10 years.*
Infrastructure	
Antin	*15% Gross IRR with a gross target of 5% p.a.*
International Public Partnerships Limited *(Private Finance Initiative)*	*To achieve a return of at least 4.5% per annum.*
Hedge Funds	
CFM-Stratus Muti asset strategy	*To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)*
Davidson Kempner (Events driven)	*To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)*
Gruss (Events driven)	*To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)*
Lansdowne Partners (Long/Short UK Equities Hedge Fund)	*To generate an absolute return. The benchmark is the FTSE All Share index*
York Capital Management (Distressed Debt Fund)	*To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)*

Appendix 2

Compliance with "Myners" Principles"

Principle 1: Effective Decision Making
Compliant: The Borough of Enfield has an appointed Pension Fund Committee consisting of elected members and there is a clearly defined decision-making process. The Committee is supported by named offices on investment and administration issues. The Committee has appointed an independent advisory member with experience in investment advice. It also employs an investment consultant and actuary. The Local Pension Board made up of Fund employers and employees has an oversight and scrutiny body.

Training on investment issues is provided by the Investment Managers at the regular meetings of the Committee. Members of the Committee are also encouraged to attend training sessions offered from time to time by other external bodies.

Principle 2: Clear Objectives
Compliant: The overall objective for the Fund is to keep the employers' contribution rates as low and stable as possible while achieving full funding on an ongoing basis. The Committee had as its starting point the latest actuarial valuation when reviewing the investment arrangements to adopt the risk budget and set the investment strategy. The independent investment adviser gave comprehensive training and advice throughout this exercise. The Investment Managers have been advised of the strategy and have clearly defined investment performance targets. The objectives will be reconsidered following the next actuarial valuation and investment strategy review to ensure they remain appropriate.

Principle 3: Risk and Liabilities
Compliant: The Committee has given due consideration to risks and liabilities as explained in the 'Risk' section above. A strategic asset allocation benchmark has been set for the Fund. The Fund also subscribes to the Pensions & Investment research consultants (PIRC) Local Authority Universe as a broad comparison with other local authority schemes.

Principle 4: Performance Assessment
Compliant: The returns of the Investment Managers are measured independently against their performance objectives and they are required to report on investment performance each quarter.

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Principle 5: Responsible Ownership
Compliant: The Panel's policy on Sustainability is detailed in an earlier section of this document. The Investment Managers have been asked to adopt the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents, and to report to the Committee on related activity at the regular meetings.

Principle 6: Transparency and Reporting
Compliant: Documents relating to the management of the Pension Fund investments are published on the Council's website – these include the Investment Strategy

Statement, the Annual Report and Accounts, the Funding Strategy Statement and the Governance Compliance Statement. The ‘Pensions Charter’ is published on the website and this details the information which is provided to scheme members.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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MUNICIPAL YEAR 2019/2020 REPORT NO. 224

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
27th February 2020

REPORT OF:
Executive Director of Resources

Contact officer and telephone number:

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Agenda – Part: 1	**Item: 8**
Subject: London Collective Investment Vehicle (CIV) Update	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. **EXECUTIVE SUMMARY**

1.1. This report provides a summary of London Collective Investment Vehicle (CIV) updates on their Medium Term Financial Strategy (MTFS) and Annual Budget for 2020/21.

1.2. The key points to note from the 2020/21 LCIV Annual Budget are:

a) Plan to grow assets under management (AUM) by £1.4bn through a combination of new funds and investment in existing funds.
b) To finalise the ESG strategy in consultation with pool members following a stocktake review by the former Chief Executive of the Brunel Pensions Partnership.
c) To recruit into key vacancies as well as to new posts to further their work on ESG and climate change risks.
d) Costs have not gone up but disappointingly the low pace of pooling impacts on their income from LLAs investing in funds, so they have had to fill this gap by asking all boroughs to increase the basic fee being paid by £20,000 (from £90k to £110k).
e) Working to improve their collaboration with pool members especially in respect of their approach to fund launches and communication about London CIV's activities. And feedback from their recent governance progress review has been valuable in all this.

2. **RECOMMENDATIONS**

2.1. **Members are recommended to:**

i) note the content of this report and are invited to discuss and make known of their views to the Chair and officers as this will assist in informing and contributing to the successful development of London CIV;

ii) delegate to the Chief Finance Officer and the Monitoring Officer to review and agree suitable terms and conditions for Enfield Pension Fund and the Council regarding the LCIV Pension Cost Recharge Agreement and LCIV Pension Guarantee Agreement (for the City of London) and

iii) approve the agreements be signed when and if the officers are satisfied that these conditions have been achieved. Signing of either or both agreements will be taken in consultation with the Chair and Vice Chair of the Committee.

3. BACKGROUND

3.1. London CIV was established in 2015 as a collaborative vehicle to pool LGPS pension fund assets for a more effective investment and value adding operation. The purpose of the company is **"*to be the LGPS pool for London to enable the London Local Authorities (LLAs) to achieve their pooling requirements".***

3.2. Pool members are both shareholders and investors. Beyond the practical purpose to deliver pooling, LCIV aspires to be "***a best in class asset pool delivering value for Londoners through long term sustainable investment strategies."*** This statement has been updated to emphasise their commitment to responsible investment and stewardship.

3.3. It is worth noting that the challenge for LCIV in achieving a shared pooled strategy across London are not limited to the following:

- Moving forward at a pace which delivers for the large majority of the 32 pool members given that others are more cautious about pooling
- Uncertainty about government policy in a climate where a Pensions Commission has been proposed
- The importance of attracting, motivating and retaining quality staff

3.4. Recently London CIV has successfully launched an Infrastructure Fund and is soon to launch a Sustainable Equity Exclusion Fund.

3.5. LCIV are now working with boroughs to identify requirements in respect of Responsible Investment and climate change priorities, including considering options for a separate renewables fund. They are also working jointly with LPFA and LPP on developing a London Fund. This would be an impact investment in collaboration with LPP and LPFA which they expect to be of interest to some boroughs. They are currently undertaking early engagement with potential investors to establish the appetite for investment in such a fund.

3.6. London CIV was set up in 2015 now in their fifth year of operation have achieved 50% of LLA assets pooled and claimed to have achieved £7.7m in net fee savings to LLAs in the first half of the current financial year and £30.2m cumulative net savings.

3.7. Since LCIV inception, the pooling context has evolved, and they continue to work in partnership to address these changes and jointly deliver the purpose of the organisation.

3.8. The forward-looking plans have been developed against the backdrop of Brexit, increasing ESG and climate change concerns and emerging outcomes of triennial valuations that are expected to show higher funding levels which will influence asset allocation strategies and pooling activities.

3.9. The pace of pooling by the LLAs has a direct relationship with London CIV's AUM based management fees and is one of the key challenges they face. The rate of AUM growth has slowed and will be flat in 2019-2020 versus the £2.6b AUM growth forecast in last year's MTFS.

3.10. LCIV recognised that a number of items are impacting the pace of pooling including a pause in pool member decision-making pending the outcome of strategic asset allocation reviews.

3.11. Currently a third, £13b, of LLA assets are invested in passive funds not located on the ACS operated by London CIV. During the year, changes have been seen in pool members investment requirements which impact on their fund launch plans and a lack of seed funding for new funds.

3.12. LCIV realised that the delay in launching a number of their funds, particularly some more complex funds which have longer timelines, has also impacted on pool member confidence. LCIV stated they now have a more robust fund launch process in place and were pleased with the positive response to their Infrastructure Fund launched in the Autumn of 2019.

3.13. LCIV stated they are committed to reviewing the funding model in the coming year to consider the overall balance between the core costs of London CIV being covered by a fixed management fee versus the variable income from individual LLAs based assets invested and, therefore the relationship with actual use of LCIV services.

3.14. LCIV completed a peer cost benchmarking exercise ahead of the last MTFS and stated this confirmed that the London CIV was lightly resourced compared to other similar pools. However, they will complete a cost benchmarking exercise in the coming financial year to ensure their cost base continues to be in line with their peers and provides the necessary resources to support their fiduciary and regulatory obligations to all stakeholders.

3.15. They already have a cost and transparency group which includes s151 officers or their nominees and are seeking a s151 to chair this.

3.16. On people, the key appointments and office to note are:

- Mike O'Donnell appointed CEO in March 2019.
- Chief Investment Officer (CIO) role covered since May 2019 on an interim basis, (Kevin Corrigan since November 2019) and a recruitment to the permanent role in hand. (The individual appointed in September decided, for personal reasons, not to stay.)
- Rob Hall, Head of Equities appointed as Deputy Chief Investment Officer (retaining his responsibilities for Equity Asset Class). Interim appointments in place to cover Larissa Benbow Head of Fixed Income who has resigned.
- Head of ESG appointment in progress which has been enabled by a review of the investment team structure rather than by adding additional posts
- Kevin Cullen retiring as Client Relations Director in March 2020 and recruitment of a replacement in hand.

3.17. London CIV exists to deliver a more effective pension scheme asset management. To achieve this, they need to establish an effective working relationship with 32 pool members and achieve a consensus way of working. For some matters this means obtaining formal approval from all 32 pool members which from time to time proves difficult and can be an impediment to moving forward at the pace London CIV would hope for in order to deliver an effective and efficient outcome that pool members are expecting.

3.18. London CIV expect pool members to agree their Annual Budget on 30 January, including key objectives for the year. This is set in the context of a broader Medium-Term Financial Strategy (MTFS). Key items which are to be discuss with pool members include:

- **Pooling plans:** Clarifying LLAs strategic asset allocation requirements following triennial valuations and commitment to pooling
- **Investment Strategy:** Finalising and agreeing the investment strategy and prioritising resources and having the appropriate client engagement to ensure seed investors are in place once funds are launched
- **ESG**: Establishing and implementing ESG framework to deliver ESG and CIV response to climate change requirements, building on the recommendations from the ESG Stocktake report by Dawn Turner (formerly Chief Executive of the Brunel Pensions Partnership)
- **Permissions:** Gaining shareholder approval to expand permissions enabling LCIV to provide a fuller service offering and realise the ambition of being a best in class asset pool that delivers value for Londoner
- **Governance Review**: Completing the Governance Review and recommendations
- **Transparency and Reporting:** Further work on and enhanced reporting on the costs and benefits of pooling

3.19. LCIV recognised pool member focus on responsible investment and stewardship issues, in particular the need to fully reflect risks arising from climate change, has increased significantly over the last 12 months. LCIV stated that around 23 pool members have made climate change declarations and are now considering a more detailed response to these issues, including how this relates to pension fund investments. Following the stocktake report by Dawn Turner former CEO of Brunel Pension Partnership, LCIV are taking forward actions in the following areas:

- the appointment of a Head of ESG;
- investment strategy and our product range;
- stewardship of assets including a voting policy;
- improved reporting; and culture including our updated vision statement.

3.20. The London CIV 2020-21 Budget considered at the 30 January 2020 Shareholders General Meeting includes the following high level objectives:

2020-2021 Objectives	KPIs
• Continue to build credibility	• Appoint permanent CIO and stabilise team • Deliver strong fund performance • Deliver fee savings • Deliver fund launches to agreed timelines
• Establish a product strategy which meets LLAs needs including ESG and climate change requirements	• Develop investment and fund strategy to meet LLAs strategic allocation plans • Establish leadership position in ESG and climate change including engagement, voting and product range.
• Establish appropriate LLA engagement model for new fund launches	• Complete detailed mapping of individual borough intentions to drive three-year plan for AUM growth and fund portfolio • Review current LLA engagement model and ensure adding value; establishing revised approach where required • Establish greater transparency on activities and clearer position on confidentiality
• Deliver on transparency reporting	• Deliver Scheme Advisory Board requirements • Delivery Quarterly net savings reporting • Deliver CIPFA and Cost Transparency Code compliant reporting for LLAs
• Delivery strategic projects	• Governance Review / Recommendations • Pension fund closure to new hires (subject to 32 signed Pension Guarantees and Recharge agreements) • Change in permissions (subject to 32 signatures) • Senior Management Certificate Regime (SMCR) • FIS and reporting implementation • VAT and Transfer Pricing Review

LCIV Recharge agreement and City of London Guarantee agreement

3.21. The LCIV's pension arrangements are provided through the City of London Pension Fund as an Admitted Body and that LCIV and City of London have been working together to formalise these arrangements. There have also been discussions with the shareholders committee and the LCIV Board. Authorities have been requested to sign two documents.

3.22. The City of London took on the LGPS on the basis that the LCIV secure a bond or guarantee and secretary of state approval. The LCIV were on boarded to the City scheme with about 4 staff, though the establishment and ensuing pension liability has grown considerably.

3.23. The LCIV have opted to provide a guarantee to the City of London as the alternative route of a bond has proven to be prohibitively expensive. A substantial number of LLAs questioned why the LCIV is providing the LGPS defined benefit pension for staff in a quasi-commercial organisation. Moreover, the financial burden of operating the scheme will fall on boroughs and there was little consultation before this decision was taken.

3.24. After considerable deliberation the LCIV board agreed to close the LGPS scheme to new entrants. However, the LCIV can only close the scheme once they formalise the admission process with the City issuing an admission agreement. The City have declined to do this if they do not have all 32 boroughs sign the guarantee. This has led to a deadlock.

3.25. The first agreement which the Council has been asked to sign covers the guarantee in favour of the City of London (the agreement which legally protects the City of London Pension Fund from being solely responsible for any deficit arising from the LCIV's membership of the Fund).

3.26. Following the board decision to close the scheme, **officers recommend that the guarantee is signed on the basis that it will assist with formally opening and closing the scheme** which will potentially limit the long-term liability that could fall on the Council as a shareholder if the scheme remains opened to new entrants.

3.27. Furthermore, there is an implicit obligation on the Council as a shareholder of the LCIV to be jointly liable for all the liabilities of the LCIV. The Guarantee Agreement is an 'all shareholder' agreement which only becomes effective when the last shareholder signs.

3.28. The second agreement that the LCIV has asked authorities to sign concerns the FRS102 accounting liability (this is an accounting calculation of the deficit of the accrued benefits of the members of the LCIV membership of the scheme). In a private sector company, there is an impact on the bottom line which is why most private sector companies have closed their DB schemes.

3.29. The benefit of the Recharge Agreement to the LCIV is that it allows LCIV to 'recover' the capital hit caused by FRS102 defined benefit accounting rules. However, the recharge agreement does present some unintended consequences and does not incentivise pension fund cost management on the part of the LCIV.

3.30. The Recharge Agreement operates on an individual shareholder basis so there are 32 agreements, with each agreement 'on a several basis. A number of boroughs have so far not signed this agreement.

3.31. **It is not recommended that the Council signs the recharge agreement** at this time, but to continue to review the position.

3.32. The recharge agreement needs to be amended to exclude from the recharge cost, strain that could be brought on by London CIV management decisions e.g.

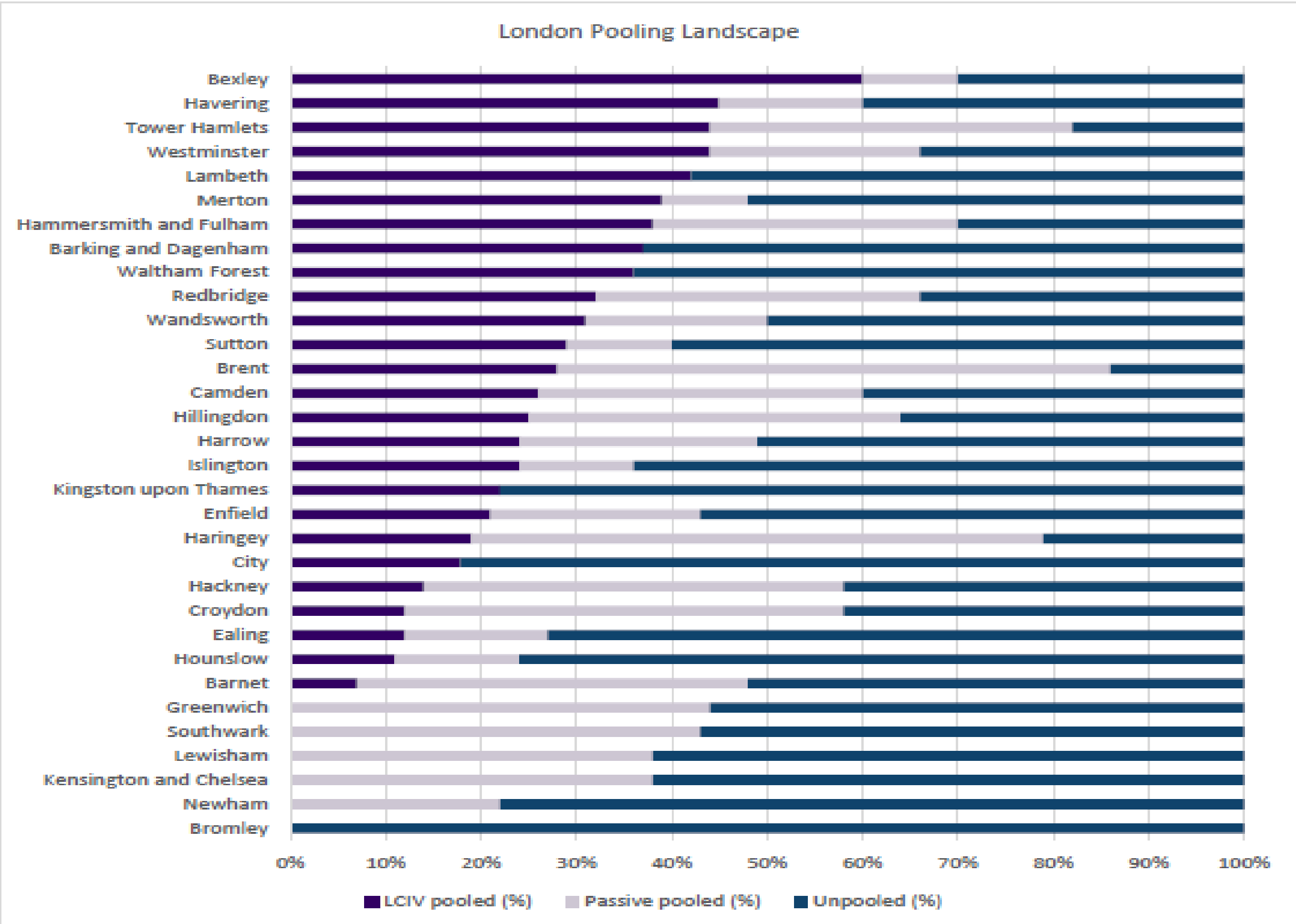
- The exercise of discretions
- Redundancy
- Early retirement

3.33. And this agreement should include a clause to notify and consult the boroughs if the pension provision or discretions policy is to be changed by London CIV.

LONDON CIV current level of asset pooling across London as at 31 December 2019 (source London CIV)

3.34. The current level of asset pooling across London has not changed meaningfully over the last twelve months. Pooling activity has been flat with little or no activity in most LLAs. There remain six LLAs that have yet to commit any funds on the LCIV platform.

3.35. Passive assets, managed by LGIM and Blackrock and which are, for the time being at least, classified as pooled, have grown as the result of continued flows into lower carbon tracker funds and LGIM's Future World Fund. By the end of 2019, it is expected assets on the LCIV platform to be around the £8.1 billion, while passive assets will be around £11 billion (LGIM £8 billion, Blackrock £3 billion). This £19 billion combined figure puts LCIV just near the 50% 'pooled' mark in respect of London's circa £38 billion total assets under management.



Cost Savings

3.36. London CIV reported actual net savings for the six months from April 2019 to September 2019 are £7.7m. Based on these actual half year savings figures, annualised potential net savings are forecast to be £15.4m and have been included in the annual LLA savings summary in shown below.

3.37. Savings including Gross savings which exclude the LCIV management fee and Net savings have been calculated taking into account all costs of the LLAs including the LCIV management fee, annual service charge and DFC. These savings do not include transition costs and we are working with LLAs to develop a process to calculate and include transition costs as part of the Transparency and Reporting Working Group. Detailed information on the savings per LLA is included below in the below chart.

3.38. London CIV plan to continue the work of the Transparency and Reporting Working Group and to work more closely with members of the Society of London Treasurers (SLT) to give this work more independence and rigour. LCIV would welcome a nomination from SLT for one of their members to chair this group.

London Local Authority Engagement and Benefit Schedule YTD September									
	AUM Figures in £Mn			Saving Figures in £000					
LLA	LCIV AuM	Passive AuM	Total AuM	LCIV Gross Savings	Passive Gross Savings	Total Gross Savings	LCIV Mgmt Fee	Service charge and DFC	Net Savings
Barking and Dagenham	398	-	398	191	-	191	49	45	97
Barnet	79	483	561	69	139	208	25	45	138
Bexley	587	54	640	392	37	429	64	45	320
Brent	243	551	794	143	153	297	40	45	211
Bromley	-	-	-	-	-	-	-	45	- 45
Camden	412	613	1,025	195	177	372	61	45	266
City	199	-	199	96	-	96	19	45	32
Croydon	148	500	648	184	144	328	22	45	262
Ealing	192	279	471	135	80	214	34	45	135
Enfield	246	313	559	212	89	301	34	45	223
Greenwich	-	625	625	15	178	193	15	45	133
Hackney	226	619	845	208	177	385	42	45	298
Hammersmith and Fulham	345	428	773	322	127	449	44	45	360
Haringey	249	909	1,157	188	262	450	46	45	359
Harrow	210	208	419	136	66	202	23	45	134
Havering	339	149	489	226	43	269	45	45	179
Hillingdon	232	416	648	296	116	412	39	45	328
Hounslow	127	155	283	117	44	161	19	45	97
Islington	367	178	545	152	51	203	48	45	110
Kensington and Chelsea	-	538	538	13	156	169	13	45	111
Kingston	188	-	188	136	-	136	21	45	70
Lambeth	635	-	635	355	-	355	73	45	237
Lewisham	-	575	575	14	162	176	14	45	117
Merton	297	79	377	239	4	243	31	45	167
Newham	-	346	346	8	100	109	8	45	55
Redbridge	283	275	558	107	80	187	42	45	101
Southwark	-	927	927	23	271	294	23	45	226
Sutton	210	85	295	95	24	119	27	45	47
Tower Hamlets	747	374	1,120	283	108	391	94	45	253
Waltham Forest	406	124	530	309	38	347	52	45	250
Wandsworth	774	492	1,265	631	142	773	101	45	627
Westminster	689	342	1,031	402	99	502	86	45	371
Total	**8,827**	**10,637**	**19,464**	**5,893**	**3,067**	**8,960**	**1,253**	**1,440**	**6,267**

LONDON CIV FUND PERFORMANCE OVERVIEW - 31 December 2019

3.39. The current LCIV portfolio includes 15 funds across equities, multi-asset, infrastructure and fixed income asset classes. The performance based on 31st December 2019 is shown below:

ACS	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
UK Equity							
LCIV UK Equity Fund	£n/am	£1,000m	(0.91)	7.69	(0.26)	18/05/2017	0
Benchmark: FTSE All Share Index			*4.16*	*19.17*	*5.19*		
Performance Against Benchmark			(5.07)	(11.48)	(5.45)		
Global Equity							
LCIV Global Alpha Growth Fund	£2,782m	£650m additional	4.90	27.78	18.60	11/04/2016	13
Benchmark: MSCI All Country World Gross Index			*1.07*	*22.34*	*15.19*		
Performance Against Benchmark			3.83	5.44	3.41		
LCIV Global Equity Fund	£668m	Unlimited	1.12	20.82	9.88	22/05/2017	3
Benchmark: MSCI All Country World Index Total Return (Gross)			*1.46*	*22.38*	*9.96*		
Performance Against Benchmark			(0.34)	(1.56)	(0.08)		
LCIV Global Equity Focus Fund	£871m	£1,500m	2.90	20.44	11.35	17/07/2017	5
Benchmark: MSCI World Index Total Return (Net) in GBP			*0.98*	*22.74*	*9.52*		
Performance Against Benchmark			1.92	(2.30)	1.83		
LCIV Equity Income Fund	£260m	£750m	(0.85)	16.90	5.61	08/11/2017	2
Benchmark: MSCI World Index Total Return (Net) in GBP			*0.98*	*22.74*	*8.24*		
Performance Against Benchmark			(1.83)	(5.84)	(2.63)		
LCIV Emerging Market Equity Fund	£346m	£1,000m	0.20	5.45	(4.04)	11/01/2018	6
Benchmark: MSCI Emerging Market Index (TR) Net			*4.03*	*13.86*	*0.01*		
Performance Against Benchmark			(3.83)	(8.41)	(4.05)		
LCIV Sustainable Equity Fund	£448m	£1,000m	3.05	26.98	14.67	18/04/2018	3
Benchmark: MSCI World Index Total Return (Net) in GBP			*0.98*	*22.74*	*13.10*		
Performance Against Benchmark			2.07	4.24	1.57		
Multi Asset							
LCIV Global Total Return Fund	£325m	Unlimited	0.67	5.44	3.55	17/06/2016	5
LCIV Diversified Growth Fund	£726m	Underlying £9.5bn	2.79	12.63	6.53	15/02/2016	8
LCIV Absolute Return Fund	£898m	£1,500m	0.97	8.91	4.23	21/06/2016	10
LCIV Real Return Fund	£134m	Unlimited	1.61	12.37	5.28	16/12/2016	2

LCIV Fund Range (continued)

ACS	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
Fixed Income							
LCIV MAC Fund	£858m	Unlimited	1.29	6.41	3.58	31/05/2018	12
LCIV Global Bond Fund	£295m	Unlimited	0.64	12.05	11.46	30/11/2018	3
Benchmark: Barclays Aggregate – Credit Index Hedged (GBP) Index			*0.20*	*9.97*	*10.17*		
Performance Against Benchmark			0.44	2.08	1.29		
Total LCIV Assets Under Management	**£8,612m**						

**Total fund capacity as at 31 December 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.*

EUUT	31 December 2019 Total Commitment	Called to Date	Undrawn Commitments	Inception Date	No. of Investors
Active Investments	£	£	£		
LCIV Infrastructure Fund	399,000,000	598,500	398,401,500	31/10/2019	6

3.40. The performance has generally been good across the LCIV funds in 2019. In terms of performance since inception, most funds have outperformed their benchmark. Growth markets continued to outperform Value and the US stock market continued to lead the way on the equity front, despite continued trade war rhetoric. The Multi-Asset fund performance has been more mixed, with the Real Return fund having provided the largest gains.

3.41. The Absolute Return fund, on the other hand, has had a more challenging year but all have posted positive returns in 2019 whilst the underlying fund manager of the LCIV MAC fund has been placed on watch. The Global Bond fund continues to perform well, both on an absolute and risk-adjusted basis.

3.42. The LCIV Infrastructure Fund has been launched with six investors and has already committed to several primary fund investments, the first of which will be in a renewables fund. Drawdowns are anticipated to be in early 2020, although there is a possibility that this could start sooner.

3.43. During the year, the LCIV Global Equity Alpha Fund and the LCIV UK Equity Fund have been closed due to disinvestment by LLA.

Fund Launches

3.44. Last year, LCIV launched the Infrastructure Fund with near £400m in commitments at the first close. Within their range of Equity funds, LCIV engaged on Global Value and a Global Exclusion fund, both of which they hope to progress in this new year coming year. The Global Equity Core fund is open ready and awaiting investment.

3.45. On the debt side, while the withdrawal of their preferred manager for the Private Debt and Liquid Loans funds was disappointing, LCIV continue to see demand for the asset class. Both their Investment team and the Client team are working on possible options for a renewed launch subject to demand and capacity.

3.46. LCIV is aiming to expand their product range with the following fund launches:

a) **Inflation Plus Fund: T**argeting FCA submission for this fund in Q1 2020. The manager has been selected and the fund structure is being finalised.
b) **Property Funds:** Aiming to offer three strategies, UK Commercial, UK Residential and Global Property. Discussions on mandate terms and structure have commenced with the initial focus on UK Commercial Property.
c) **Sustainable Exclusion Fund**: We have had strong lead interest in launching an exclusion version of our Sustainable Equity Fund. Expectation to launch this in early 2020.
d) Separate Renewables Mandate: To initiate work on options in this area and engage with potential investors.

3.47. The table below summarises the new product focus and indicative estimates for AuM growth in the coming months. These are high-level estimates, and much will depend on the triennial valuations, structuring discussions which are currently taking place. The LLAs are also going through their own ESG and RI policies, which will have an effect on the estimated figures below.

3.48. The challenge for both LCIV and LLAs is to ensure that indicative levels of interest convert into actual investment. LCIV is tasked with manager selection which it will do in consultation with LLAs, but the ultimate decision to invest remains with LLAs.

3.49. LCIV Asset Under Management (AUM) Projections March 2021

Fund/Asset Class	Estimate of AUM Inflows by March 2021
Inflation Plus	350-500m
Property Funds	350-500m
Sustainable Exclusion Fund	200-300m
Existing Funds	200-400m
Total AUM Estimate	1.1bn -1.7bn

4. **ALTERNATIVE OPTIONS CONSIDERED**

4.1 There is no alternative

5. **REASONS FOR RECOMMENDATIONS**

5.1 This report provides an update on LCIV new governance arrangements, Fund launches and LCIV Agreements. The Fund and the Council are obliged to be comfortable with the terms and conditions to inherit future share of unlimited or unquantifiable pension liabilities. As the Council is not certain on London CIV decisions and these could impact the level of future liabilities.

5.2 For effective and efficient management of the Fund as regular engagement with the London CIV is crucial to the Fund, to ensure that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

6. **COMMENTS FROM OTHER DEPARTMENTS**

6.1. **Financial Implications**

a) This report provides an update on progress to date on LCIV new governance arrangement and Fund launches. Regular engagement with the London CIV going forwards is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

b) The Council has some £253m investments with London CIV sub-funds and £278m of passive pooled investments.

6.2. **Legal Implications**

a) This report provides an update on developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must ensure compliance with its statutory duty to ensure the proper and efficient management of the Fund.

b) Improvements to the governance arrangements in the London CIV as well as reviewing and agreeing the LCIV renumeration policy, the LCIV Pension Cost Recharge and LCIV Pension Guarantee Agreement for City of London should assist the Council to meet its statutory duties.

7. **KEY RISKS**

a) It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

b) The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Background Papers
None

Appendices
None

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MUNICIPAL YEAR 2019/2020 REPORT NO. 226

MEETING TITLE AND DATE: Pension Policy and Investment Committee 27th February 2020	**Agenda – Part:1** / **Item: 9**
REPORT OF: Director of Finance	**Subject: Enfield of Pension Fund Procedure for Recording and Reporting Breaches Policy** **Wards: All** **Key Decision No:**
Contact officer and telephone number: Bola Tobun – 020 8379 6879 E mail: Bola.Tobun@enfield.gov.uk	**Cabinet Member consulted:**

1. EXECUTIVE SUMMARY

1.1 There is a statutory obligation to report 'materially significant' breaches of the law to the Pensions Regulator (TPR) under section 70 of the Pensions Act 2004 for the persons involved in running or advising Pension Schemes.

1.2 TPR's oversight powers have been extended to cover the administration and governance of public service schemes, including the Local Government Pension Scheme (LGPS) since 1st April 2015. Part of TPR's remit has been to put in place a Code of Practice covering these aspects of scheme management; the Code includes a section providing guidance on how to identify and assess the significance of breaches of the law.

1.3 This report sets out a draft 'Reporting Breaches Procedure' for the Fund, to help ensure compliance with section 70 of the Pensions Act 2004 and with the 'reporting breaches' section of TPR's Code of Practice. The report provides a summary of the recommendations set out in the Code and details the actions taken by the Enfield Pension Fund to ensure that all those involved in the management of the Pension Scheme understand its requirements.

2. RECOMMENDATIONS

The Committee is recommended to:

i) note the contents of this report and the attached Appendix 1;

ii) note, consider and approve the Enfield Pension Fund Procedure for Recording and Reporting Breaches at Appendix 2.

3 BACKGROUND

3.1 Section 70 of the Pensions Act 2004 requires that certain people involved in running or advising a pension scheme must report 'materially significant' breaches of the law to TPR. For public service schemes, those subject to this reporting requirement ('Reporters') are:

- Scheme managers (in this case the Council as the Administering Authority, with responsibility delegated to the Pension Policy and Investment Committee);
- Pension Board Members Persons otherwise involved in the administration of the scheme;
- Employer;
- Professional advisers; and
- Persons otherwise involved in advising the Scheme Manager in relation to the scheme.

3.2 The Regulator's Code of Practice helps reporters to determine whether or not a breach needs to be reported, setting out two key judgements to enable a decision:

- Does the reporter have reasonable cause to believe there has been a breach of the law If so, does the reporter believe that this is likely to be of material significance to the Regulator?
- The Code provides practical guidance on the factors reporters should consider in making these key judgements, and the process for making a report to the Regulator should this be required.

3.3 The Code also highlights the need for schemes to be satisfied that those with statutory responsibility for reporting breaches have a sufficient level of knowledge and understanding to fulfil their duty. The Code recommends that training be provided for Scheme Managers and Pension Board members, and for all others with a duty to report to be familiar with the legal requirements and processes and procedures for reporting.

3.4 TPR also recommends that schemes should establish and operate 'appropriate and effective' procedures that enable people to raise concerns and allow the objective consideration of any breaches identified. They should also set out appropriate timescales for reporters to consider whether or not a breach should be reported.

3.5 The relevant section (points 241-275) of The Pensions Regulator's Code of Practice can be found at Appendix 1 to this report.

ENFIELD PENSION FUND – ACTIONS TAKEN

3.6 A draft reporting breaches policy for the Enfield Pension Fund is provided for the noting of the Board at Appendix 2 to this report. As per the Regulator's guidance, the policy:

- Sets out the law on reporting breaches, and those to whom it applies

- Provides guidance on how to confirm the facts when a breach is suspected
- Provides guidance on determining whether or not a breach is likely to be of material significance to the Regulator
- Sets out the appropriate level of seniority for decision-making when determining whether or not to report
- Provides appropriate timescales for reporting
- Provides guidance on dealing with complex cases
- Sets out an early reporting procedure for serious breaches (e.g. where dishonesty is suspected)
- Sets out the procedure for reporting a breach to the Regulator

3.7 In line with the Regulator's recommendation for training to be provided to Scheme Managers and Pension Board Members, a training session will be provided at the January Board meeting to cover the reporting of regulatory breaches.

3.8 The policy also sets out a quarterly reporting procedure for all breaches, irrespective of whether or not they are reported to the Regulator. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each meeting of the Pensions Board, and this will also be shared with the Pension Policy and Investment Committee.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Policy coming before Pensions Committee for approval helps to demonstrate compliance with both regulation and guidance provided by TPR.

5. REASONS FOR RECOMMENDATIONS

5.1 In recent years there has been an increased focus on the governance of LGPS funds, with the introduction of oversight powers for TPR and the publication of the Code of Practice being good examples of this. Ensuring compliance with the Code may result in additional work for the Fund's officers and advisers, bringing an associated increase in cost to be met by the Fund; however, any such costs will be immaterial in the context of the Fund.

5.2 The Pensions Regulator's Compliance and Enforcement policy sets out the Regulator's approach to regulatory compliance. It makes clear that the Regulator expects to educate and enable schemes to improve their standard of governance. However, where no action is taken by scheme managers address poor standards, enforcement action will be taken, which may include financial penalties.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 **Financial Implications**

i) In recent years there has been an increased focus on the governance of LGPS funds, with the introduction of oversight powers for TPR and the publication of the Code of Practice being good examples of this. Ensuring compliance with the Code may result in additional work for the Fund's officers and advisers, bringing an associated increase in cost to be met by the Fund; however, any such costs will be immaterial in the context of a £1.26bn Fund.

ii) The Pensions Regulator's Compliance and Enforcement policy sets out the Regulator's approach to regulatory compliance. It makes clear that the Regulator expects to educate and enable schemes to improve their standard of governance. However, where no action is taken by scheme managers address poor standards, enforcement action will be taken, which may include financial penalties.

6.2 **Legal Implications**

i) Employers are under a whistleblowing duty, imposed by *section 70* of the PA 2004, to report breaches of law to the Regulator. The regime applies in the same way to employers and trustees.

ii) Under the statutory whistleblowing requirements contained in the Pensions Act 2004 (PA 2004) trustees, scheme administrators, employers, professional advisers and others must report certain "breaches of law" to the *Pensions Regulator* as soon as reasonably practicable. Failure to comply with this duty could lead to a fine of up to £5,000 for individuals or £50,000 for companies

iii) The statutory whistleblowing provisions are contained in *section 70* of the PA 2004. The legislation is supplemented by the following codes and guidance published by the Regulator:

- *Code of practice 01: Reporting breaches of the law* (Reporting Breaches Code).
- *Guidance on reporting breaches of the law* (Reporting Breaches Guidance).
- *Code of practice 14: Governance and administration of public service pension schemes* (Public Service Pension Schemes Code).

a) The Public Sector Pensions Act (2013) extended the oversight powers of the Pensions Regulator to the administration and governance of public service schemes, including the LGPS. As such, those involved with the management of LGPS funds are now required to report breaches of scheme regulations to The Pensions Regulator under section 70 of the Pensions Act 2004.

b) There are no immediate legal implications arising from this report.

7. KEY RISKS

7.1 Lack of robust governance inevitably involves a degree of risk.

7.2 Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

Background Papers

i) Code of practice 01: Reporting breaches of the law (Reporting Breaches Code).
ii) Guidance on reporting breaches of the law (Reporting Breaches Guidance).
iii) Code of practice 14: Governance and administration of public service pension schemes (Public Service Pension Schemes Code).

Appendices

Appendix 1: The Pensions Regulator Code of Practice (Extracts in relation to Procedure in Recording & Reporting Breaches)

Appendix 2: Enfield Pension Fund Procedure for Recording and Reporting Breaches of the Law

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240. When reviewing an application, scheme managers and specified persons (where relevant) should ensure that they have all the appropriate information to make an informed decision. They should request further information if required. Scheme managers and specified persons should be satisfied that the times taken to reach a decision and notify the applicant are appropriate to the situation and that they have taken the necessary action to meet the reasonable time periods. Scheme managers should be able to demonstrate this to the regulator if required.

Reporting breaches of the law

Legal requirements

241. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty[126] which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions[127].

For further information about reporting late payments of employee or employer contributions, see the section of this code on 'Maintaining contributions'.

242. People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers[128]
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers[129]: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers[130] including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme[131].

243. The report must be made in writing as soon as reasonably practicable[132]. See paragraph 263 for further information about how to report breaches.

126
The reference to a legal duty is to a duty imposed by, or by virtue of, an enactment or rule of law (s70(2)(a) of the Pensions Act 2004).

127
Section 70(2) of the Pensions Act 2004.

128
The legal requirement to report breaches of the law under section 70(1)(a) is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

129
As defined in s318 of the Pensions Act 2004.

130
As defined in s47 of the Pensions Act 1995.

131
Section 70(1) of the Pensions Act 2004.

132
Section 70(2), ibid.

Practical guidance

244. Schemes[133] should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and this guidance. Schemes should provide training for scheme managers and pension board members. All others under the statutory duty to report should ensure they have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity with the legal requirements and procedures and processes for reporting.

Implementing adequate procedures

245. Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes. Those people with a responsibility to report breaches, including scheme managers and pension board members, should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to decide within an appropriate timescale whether they must report a breach. Reporters should not rely on waiting for others to report.

246. Procedures should include the following features:

- a process for obtaining clarification of the law around the suspected breach where needed
- a process for clarifying the facts around the suspected breach where they are not known
- a process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board
- a clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- an established procedure for dealing with difficult cases
- a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- a system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and
- a process for identifying promptly any breaches that are so serious they must always be reported.

133
See paragraph 25 for the definition of 'schemes'.

Judging whether a breach must be reported

247. Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

Judging whether there is 'reasonable cause'

248. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

249. Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

250. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with the pension board or scheme manager or with others who are in a position to confirm what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the regulator without delay.

251. If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

252. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

Judging what is of 'material significance' to the regulator

253. In deciding whether a breach is likely to be of 'material significance' to the regulator. It would be advisable for those with a statutory duty to report to consider the:

- cause of the breach
- effect of the breach
- reaction to the breach, and
- wider implications of the breach.

254. When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the regulator.

Cause of the breach

255. The breach is likely to be of material significance to the regulator where it was caused by:

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law.

256. When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

257. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

Effect of the breach

258. Reporters need to consider the effects of any breach, but with the regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the regulator:

- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded, and
- any other breach which may result in the scheme being poorly governed, managed or administered.

259. Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

Reaction to the breach

260. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.

261. A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

Wider implications of the breach

262. Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

Submitting a report to the regulator

263. Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Wherever possible reporters should use the standard format available via the Exchange online service on the regulator's website.

264. The report should be dated and include as a minimum:

- full name of the scheme
- description of the breach or breaches
- any relevant dates
- name of the employer or scheme manager (where known)
- name, position and contact details of the reporter, and
- role of the reporter in relation to the scheme.

265. Additional information that would help the regulator includes:

- the reason the breach is thought to be of material significance to the regulator
- the address of the scheme
- the contact details of the scheme manager (if different to the scheme address)
- the pension scheme's registry number (if available), and
- whether the concern has been reported before.

266. Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.

267. Reporters should ensure they receive an acknowledgement for any report they send to the regulator. Only when they receive an acknowledgement can the reporter be confident that the regulator has received their report.

268. The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.

269. The reporter should provide further information or reports of further breaches if this may help the regulator to exercise its functions. The regulator may make contact to request further information.

270. Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.

271. In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the regulator to the breach.

Whistleblowing protection and confidentiality

272. The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.

273. The statutory duty to report does not, however, override 'legal privilege'[134]. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

134 Section 311 of the Pensions Act 2004.

274. The regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.

275. The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

Appendix 1

London Borough of Enfield Pension Fund Procedure for Recording and Reporting Breaches of the Law

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

Pension Policy and Investment Committee

1. Introduction

1.1 This document sets out the procedures to be followed by certain persons involved with the Enfield Pension Fund, the Local Government Pension Scheme managed and administered by Enfield Council, in relation to reporting breaches of the law to the Pensions Regulator.

1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

1.3 This Procedure document applies, in the main, to:

- all members of the Enfield Pension Policy & Investment Committee and Board;
- all officers involved in the management of the Pension Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Enfield Pension Fund who are responsible for pension matters.

2. Requirements

2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

2.2 ***Pensions Act 2004***
Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:
  (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
  (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

2.3 *The Pension Regulator's Code of Practice*

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

2.4 *Application to the Enfield Pension Fund*

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Enfield Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

3 The Enfield Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Enfield Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

3.1 *Clarification of the law*

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013: www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various): http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes) http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)

- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Council Monitoring Officer and the Executive Director of Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.2 ***Clarification when a breach is suspected***

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Council Monitoring Officer and the Executive Director of Resources, a member of the Pension Policy & Investment Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.3 ***Determining whether the breach is likely to be of material significance***

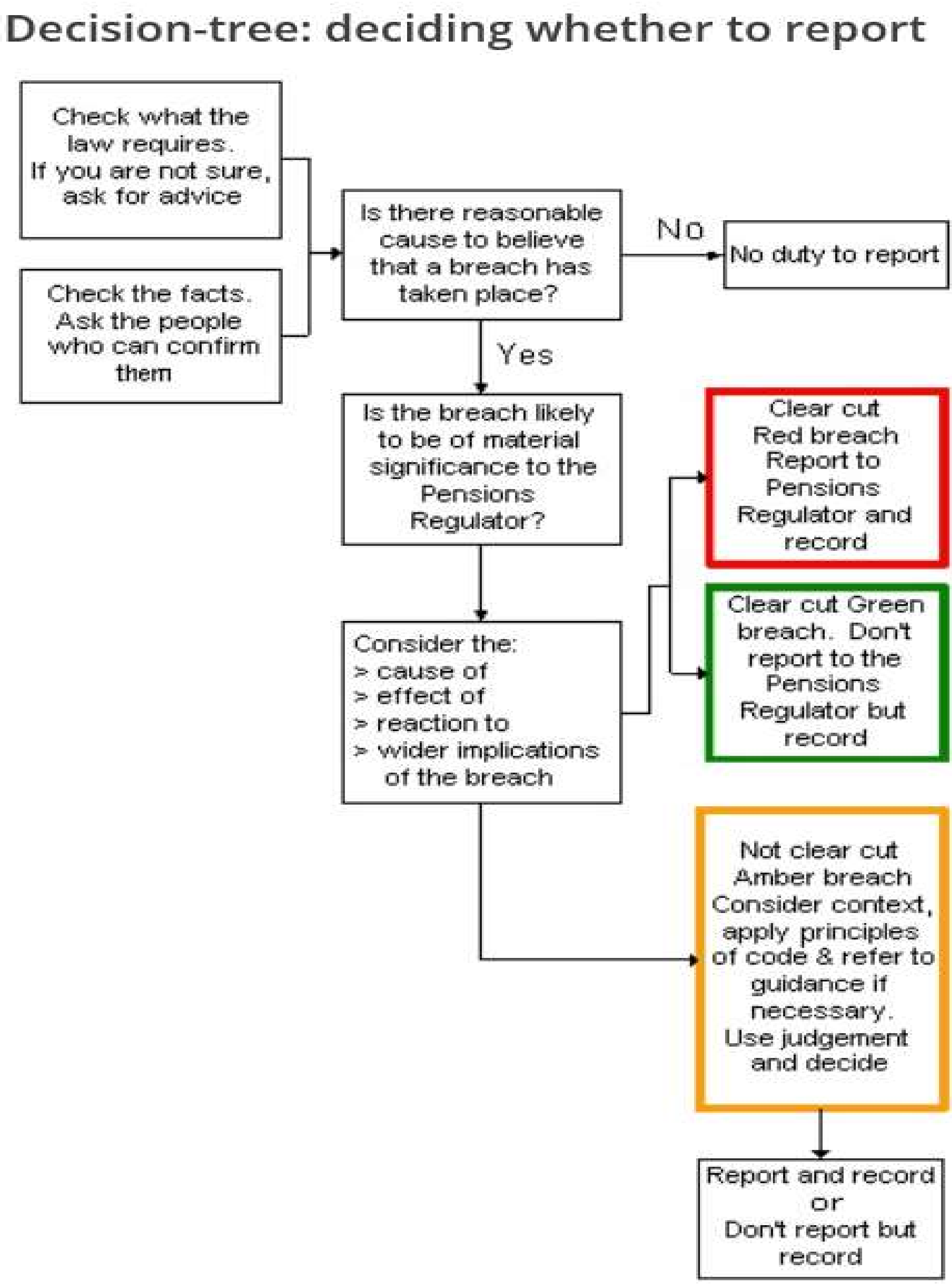
To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

3.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.



3.5 ***Referral to a level of seniority for a decision to be made on whether to report***

Enfield Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Council Director of Finance and the Executive Director of Resources, at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

3.6 ***Dealing with complex cases***

The Council Director of Finance and the Executive Director of Resources may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

3.7. ***Timescales for reporting***

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

3.8 ***Early identification of very serious breaches***

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

3.9 ***Recording all breaches even if they are not reported***

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Enfield Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Council Monitoring Officer and the Executive Director of Resources. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

3.10 ***Reporting a breach***

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Enfield Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Enfield Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10041083); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.11 ***Confidentiality***

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.12 ***Reporting to Pension Policy & Investment Committee and Pensions Board***

A report will be presented to the Pension Policy & Investment Committee and the Pensions Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

3.13 ***Review***

This Reporting Breaches Procedure will be kept under review and updated as considered appropriate by the Executive Director of Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

Further Information

If you require further information about reporting breaches or this procedure, please contact:

Bola Tobun - Pensions & Treasury Manager
Email: Bola.Tobun@enfield.gov.uk
Telephone: 020 8379 6879

Enfield Pension Fund
London Borough of Enfield, London EN1 3XF

Designated officer contact details:

1) Director of Finance – Matt Bowmer (Interim)
Email: Matt.Bowmer@enfield.gov.uk

2) Executive Director of Resources – Fay Hammond (Acting)
Email: Fay.Hammond@enfield.gov.uk

3) Monitoring Officer/Director of Law & Governance – Jeremy Chambers
Email: Jeremy.Chambers@enfield.gov.uk

Appendix A

Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time.

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

The reaction to the breach
A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

The wider implications of the breach
Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B

Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

RED

This where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.
Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

AMBER

This where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

GREEN

This where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together.
Some useful examples of this is framework is provided by The Pensions Regulator at the following link:
http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Appendix C

Enfield Pension Fund - Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

*New breaches since the previous meeting should be highlighted

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XF

www.enfield.gov.uk

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MUNICIPAL YEAR 2019/2020 REPORT NO. 223

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
27th February 2020

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item: 10**
Subject: Enfield of Pension Fund Conflict of Interest Policy **Wards: All** **Key Decision No:**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1. The Public Service Pensions Act 2013 requires that Administering Authorities ensure that members of the Pension Board do not have conflicts of interest, this is further enshrined in the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.
2. Furthermore, the Pensions Regulator (TPR) Code of Practice for Public Service Pension Schemes covers conflicts of interest and provides guidance on how these might be identified.
3. In order to ensure compliance with both the Regulations and the Code, members of the Pension Board are asked to note the Conflicts of Interest Policy.

2. RECOMMENDATIONS

The Committee members are asked to:

i) note the contents of this report and the attached Appendix 1;

ii) note and approve the Enfield Pension Fund Conflict of Interest Policy attached to this report as Appendix 2; and

iii) agree to complete declaration of interest in respect of their position as members of the Enfield Pension Fund Committee as set out in Appendix B of the Enfield Pension Fund Conflict of Interest Policy.

3 BACKGROUND

3.1 In accordance with the Public Service Pensions Act 2013 (PSPA) all Board members are required to have knowledge and understanding of pension scheme matters at a level that will allow them to properly exercise the functions of their role.

3.2 The Public Service Pensions Act 2013, the LGPS Governance Amendment Regulations and TPR Code of Practice lay down that members of the Pensions Board should not have a conflict of interest in respect of their duties as members of the Board. In addition the TPR guidance provides for how such conflicts can be identified, monitored and managed. Appendix 1 to this report shows the relevant extracts from the LGPS Regulations and TPR Code of Practice.

3.3 Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, it will use the code as a core reference document when deciding appropriate action.

3.4 Whilst the Act specifically relates to conflicts of interest declarations for members of the Pension Board, the attached Conflicts of Interest Policy was widened to encompass both the Committee and senior officers involved in the management of the Fund. The Policy is attached as Appendix 2 to this report.

3.5 The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Pension Fund whether directly or in advisory capacity. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions and appendix C of the Policy document sets out some examples of how conflicts of interest might arise.

3.6 The Policy document also contains an example (appendix B) of a declaration form for completion by those involved in the Pension Fund with an annual register (appendix C) for recording potential and actual conflicts of interest to be reviewed annually by the Board. Members of the Board and the Committee will be provided with individual declarations for completion at each of their Committee or Board meeting.

3.7 The Conflicts of Interest Policy helps to ensure that the London Borough of Enfield as Scheme Manager of the Pension Fund understands its responsibilities and the potential conflicts of interest that could arise, how these are identified, managed and monitored. This will ensure that it is compliant with both the regulatory requirements and TPR Code of Practice.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 No alternative, although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

5. **REASONS FOR RECOMMENDATIONS**

5.1 Regulation 106(1) of the Local Government Pension Scheme Regulations 2013 provides for each Administering Authority to establish its own Local Pension Board with responsibility for assisting the Administering Authority to secure compliance with the Regulations, other legislation relating to the governance and administration of the LGPS and the requirements imposed by the Pensions Regulator in relation to the LGPS. The Board must also ensure the effective and efficient governance and administration of the LGPS.

5.2 The Policy coming before Pensions Board for noting helps to demonstrate compliance with both regulation and guidance provided by TPR.

6. **COMMENTS FROM OTHER DEPARTMENTS**

6.1 **Financial Implications**

i) Members of the Pensions Board are required to disclose at the start of Pensions Board meetings if they have any conflicts of interest regarding their role as Board members.

ii) A good standard of governance is crucial in minimising the key risks involved in managing the Pension Fund. The Regulations cover requirements for the Pensions Board in terms of managing conflicts of interest, the policy has been broadened to cover Members of the Pension Policy & Investments Committee as well as officers involved in managing the Pension Fund.

iii) Any costs associated with meeting the conflicts of interest policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund. The costs of not adhering to either the legislation or indeed applying best practice in regard to conflicts of interest could be significantly higher and pose risks to the financial management of the Pension Fund.

6.2 **Legal Implications**

i) The responsibilities given to the Pension Policy & Investments Committee, Pension Board members and senior officers in respect of the management of the Pension Fund are both broad and onerous. The responsibilities are exercised in a legal framework that is both complex and changing.

ii) The Public Service Pensions Act 2013 (Regulation 5(4) and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 (Regulation 108 – Local Pension Board – Conflicts of Interest) require that the Administering Authority is satisfied that Pension Board members do not have conflicts of interest with their roles as Board Members and that Board members must supply such information as is necessary for the authority to make that determination. In addition TPR Code of Practice for Public Service Pension Schemes sets out the legal requirements in respect of conflicts of interest, practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

iii) Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

iv) The responsible authority for local government pension schemes is the Department for Communities and Local Government and it consulted on the regulations comprising the legislative framework of the current LGPS. The key regulations governing the scheme are:

a) The Local Government Pension Scheme Regulations 2013 (SI 2013/2356) (LGPS Regulations 2013). These cover eligibility requirements, the payment of contributions and the benefit structure in the new career-average scheme, along with provisions regarding the scheme's administration and management. They replaced the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166) and the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239).

b) The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525). These regulations provide information on the requirements of the admission agreement and bond regime, used on outsourcing transactions. They also provide more detail on the "statutory underpin", which provides protection for scheme members who were within ten years of their normal retirement age on 1 April 2012.

c) Until 1 November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) governed the operation of the LGPS investment function. They were replaced on 1 November 2016 by the Local Government Pensions Scheme (Management and Investment Funds) Regulations 2016 (SI 2016/946) (Investment Regulations 2016).

7. KEY RISKS

Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

Background Papers
None

Appendices
Appendix 1 – LGPS Scheme Regulations and TPR Code Practice (Extracts in relation to conflicts of interest)
Appendix 2 – Enfield Pension Fund Conflicts of Interest Policy

APPENDIX 1

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015

Local pension boards: conflict of interest

Regulation 108.

1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest (**a**).
2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.
3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).
4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

The Pensions Regulator –Code of Practice – Governance and Administration of Public Service Pension Schemes

Conflicts of interest and representation

Legal requirements

61. A conflict of interest is a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the pension board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established.

62. In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest.

63. Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above

64. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

65. In relation to the scheme advisory board, the regulations must also include provision requiring the responsible authority to be satisfied:

- that a person to be appointed as a member of the scheme advisory board does not have a conflict of interest and
- from time to time, that none of the members of the scheme advisory board has a conflict of interest.

66. Scheme regulations must require each member of a scheme advisory board to provide the responsible authority with such information as the responsible authority reasonably requires for the purposes of meeting the requirements referred to above.

Practical guidance

67. This guidance is to help scheme managers to meet the legal requirement to be satisfied that pension board members do not have any conflicts of interest. The same requirements apply to responsible authorities in relation to scheme advisory boards, (apart from the requirement regarding employer and member representatives), but the regulator does not have specific responsibility for oversight of scheme advisory boards.

68. Actual conflicts of interest are prohibited by the 2013 Act and cannot, therefore, be managed. Only potential conflicts of interest can be managed.

69. A conflict of interest may arise when pension board members:

- must fulfil their statutory role38 of assisting the scheme manager in securing compliance with the scheme regulations, other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator or with any other matter for which they are responsible, whilst
- having a separate personal interest (financial or otherwise), the nature of which gives rise to a possible conflict with their statutory role.

70. Some, if not all, of the 'Seven principles of public life' (formerly known as the 'Nolan principles') will already apply to people carrying out roles in public service pension schemes, for example through the Ministerial code, Civil Service code or other codes of conduct. These principles should be applied to all pension board members in the exercise of their functions as they require the highest standards of conduct. Schemes should incorporate the principles into any codes of conduct (and across their policies and processes) and other internal standards for pension boards.

71. Other legal requirements to conflicts of interest may apply to pension board members and/or scheme advisory board members. The regulator may not have specific responsibility for enforcing all such legal requirements, but it does have a particular role in relation to pension board members and conflicts of interest. While pension board members may be subject to other legal requirements, when exercising functions as a member of a pension board they must meet the specific requirements of the 2013 Act and are expected to satisfy the standards of conduct and practice set out in this code.

72. It is likely that some pension board members will have dual interests, which may include other responsibilities. Scheme managers and pension board members will need to consider all other interests, financial or otherwise, when considering interests which may give rise to a potential or actual conflict. For example, a finance officer appointed as a pension board member can offer their knowledge and make substantial contributions to the operational effectiveness of the scheme, but from time to time they

may be involved in a decision or matter which may be, or appear to be, in opposition to another interest. For instance, the pension board may be required to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, while the finance officer is at the same time tasked, by virtue of their employment, with reducing departmental spending. A finance officer might not be prevented from being a member of a pension board, but the scheme manager must be satisfied that their dual interests are not likely to prejudice the pension board member in the exercise of any particular function.

73. Scheme regulations will set out matters for which the pension board is responsible schemes should set out clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards in scheme documentation. This should cover, for example, whether they have responsibility for administering or monitoring the administration of the scheme; developing, delivering or overseeing compliance with requirements for governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration. Regardless of their remit, potential conflicts of interest affecting pension board members need to be identified, monitored and managed effectively.

74. Schemes should consider potential conflicts of interest in relation to the full scope of roles, responsibilities and duties of pension board members. It is recommended that all those involved in the management or administration of public service pension schemes take professional legal advice when considering issues to do with conflicts of interest.

A three-stage approach to managing potential conflicts of interest

75. Conflicts of interest can inhibit open discussions and result in decisions, actions or inactions which could lead to ineffective governance and administration of the scheme. They may result in pension boards acting improperly or lead to a perception that they have acted improperly. It is therefore essential that any interests, which have the potential to become conflicts of interest or be perceived as conflicts of interest, are identified and that potential conflicts of interest (including perceived conflicts) are monitored and managed effectively.

76. Schemes should ensure that there is an agreed and documented conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process that pension board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflict of interest.

77. Broadly, schemes should consider potential conflicts of interest in three stages:

i. identifying;
ii. monitoring; and
iii. managing.

Identifying potential conflicts

78. Schemes should cultivate a culture of openness and transparency. They should recognise the need for continual consideration of potential conflicts. Disclosure of interests which have the potential to become conflicts of interest should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest. They should know how to manage potential conflicts.

79. Pension board members, and people who are proposed to be appointed to a pension board, must provide scheme managers with information that they reasonably require to be satisfied that pension board members and proposed members do not have a conflict of interest.

80. Schemes should ensure that pension board members are appointed under procedures that require them to disclose any interests, including other responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed.

81. All terms of engagement, for example appointment letters, should include a clause requiring disclosure of all interests, including any other responsibilities, which have the potential to become conflicts of interest, as soon as they arise. All interests disclosed should be recorded. See the section of this code on ‘Monitoring potential conflicts’.

82. Schemes should take time to consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual conflicts of interest that may arise in the future. Pension board members should be notified as soon as practically possible and mitigations should be put in place to prevent these conflicts from materialising.

Monitoring potential conflicts

83. As part of their risk assessment process, schemes should identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Schemes should evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.

84. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how to manage potential conflicts of interest in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example on a scheme’s website.

85. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising.

Managing potential conflicts

86. Schemes should establish and operate procedures which ensure that pension boards are not compromised by potentially conflicted members. They should consider and determine the roles and responsibilities of pension boards and individual board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.

87. A perceived conflict of interest can be as damaging to the reputation of a scheme as an actual conflict of interest. It could result in scheme members and interested parties losing confidence in the way a scheme is governed and administered. Schemes should be open and transparent about the way they manage potential conflicts of interest.

88. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board, schemes should consider obtaining professional legal advice when assessing any option.

Examples of conflicts of interest

89. Below are some examples of potential or actual conflicts of interest which could arise, or be perceived to arise, in relation to public service pension schemes. These will depend on the precise role, responsibilities and duties of a pension board. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement based on the principles set out in this code and any legal advice considered appropriate, on a case by case basis.

a. Investing to improve scheme administration versus saving money

An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping in the scheme, but it would be costly to implement. The scheme manager, for instance a central government department or local administering authority, would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down.

In order to meet the costs of the new system, the scheme manager would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with taxpayers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.

b. Outsourcing an activity versus keeping an activity in-house

In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.

c. Representing the breadth of employers or membership versus representing narrow interests

An employer representative who happens to be employed by the administering authority and is appointed to the pension board to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.

d. Assisting the scheme manager versus furthering personal interests

i. A pension board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services

ii. A pension board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.

e. Sharing information with the pension board versus a duty of confidentiality to an employer

An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the pension board. They have to consider whether to share this information with the pension board in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the pension board.

Agenda Item 11

229MUNICIPAL YEAR 2019/2020 REPORT NO. 229

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
27th February 2020

REPORT OF:
Executive Director of Resources

Contact officer and telephone number:

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Agenda – Part: 1	**Item: 11**
Subject: Enfield Pension Fund Training & Development Policy	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1. This report sets out the need for a training and development programme for members of the Pension Policy & Investment Committee and the Pension Board.

1.2. The report explains the requirement for good governance of the Pension Fund and the framework of legislation, regulation and guidance which the Fund must comply with. As part of this there is a need for a formal training programme for Members of the Pension Policy & Investment Committee.

1.3. The report also refers to the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) (referred to elsewhere in this report as the "CIPFA knowledge and skills framework (2010)".

1.4. This provides a framework for the training and development of Elected Members and other representatives on public sector pension scheme decision making bodies.

2. RECOMMENDATIONS

Members are asked to consider this report and to:

a) Note the assessment and training resources provided by the Pensions Regulator (paragraph 3.20 – 3.23);

b) Note the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (paragraph 3.24 – 3.31), including the self-assessment matrix (attached as Appendix 2);

c) Note and consider the programme for 2019/20 set out within this report (para 3.32 and 3.34); and

d) Note and review the contents of the training and development policy attached as Appendix 3 including the Training Record Log For 2019/20and agree actions at the next PPIC meeting.

3. BACKGROUND

3.1. The Pension Fund recognises the importance of training of Committee members and officers in relation to Pension Fund matters. The Fund's Governance Policy Statement refers to the Fund's current policy with regard to training. The Annual Report and Statement of Accounts of the Fund include a statement setting out governance compliance against the Myners effective decision making principles.

3.2. Arrangements for regular training of members and officers are in place, with training delivered in a number of ways including: online training on the Pension Regulator website; external seminars and events (in person or via video conference); training delivered as Committee agenda items; other briefings and research material for personal reading.

3.3. The CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, and CIPFA's supporting Framework and guidance documentation to be formally adopted by the Pension Policy & Investment Committee at the meeting of November 2019.

3.4. Following the introduction of the Public Service Pensions Act 2013 the Pensions Regulator has outlined the legal requirements (in addition to the ones above for Pension Policy & Investment Committee Members) for individual Pension Board members to have the correct level of knowledge and understanding to undertake their role.

The CIPFA Code and Framework

3.5. In order to ensure all members and officers involved in Pension Fund decisions are adequately trained, CIPFA has developed a Public Sector Pensions Knowledge and Skills Framework to support the Code. The Code and Framework are seen as supporting the requirements of the Public Sector Pensions Act 2013 and Pension Regulator code.

3.6. The CIPFA Framework supporting the Code of Practice is intended to have two primary uses:

i) as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs,

ii) as an assessment tool for individuals to measure their progress and plan their development.

3.7. The Framework sets out 6 core areas of knowledge and skills for those involved in LGPS pensions finance (both members and officers):

i) pensions legislative and governance context

ii) pensions accounting and auditing standards

iii) financial services procurement and relationship management

iv) investment performance and risk management

v) financial markets and products knowledge

vi) actuarial methods, standards and practices

3.8. An extract of the competency assessment for members has been included with this report at Appendix 1 and is further described at section 3.14 - 3.16.

3.9. The CIPFA Framework recognises that all LGPS Funds will differ, and each fund will wish to adapt the framework to suit their own requirements e.g. not all funds will be of a size, or take an investment approach, whereby all activities and knowledge are in-house. The framework acknowledges that some Funds will choose to access certain types of expertise from external sources such as investment managers and investment advisers.

3.10. The key recommendations of the Code and Framework are:

i) Formal adoption of the CIPFA Framework as the basis for training and development of members and officers involved in Pension Fund finance matters.

ii) Disclosure within the Pension Fund Annual Report and Financial Statements how the framework has been applied, what assessment of training needs has been undertaken, and what training has been delivered against the identified training needs. Enfield Pension Fund currently complies with both of these recommendations and it is important that this is maintained.

Training Policy

3.11. Training needs will be assessed using the structure of the 6 core knowledge and skills areas set out at paragraph 3.7. The training needs assessment and the delivery of training will be a combination of group sessions for the Committee and the Board as well as individual activities for members and officers.

Group Needs and Training

3.12. Group training will be delivered in a variety of ways including:

i) directly at Pension Policy & Investment Committee and Board by presentations and presentation of reports.

ii) specific training sessions/conferences/seminars/visits, provided by e.g. Council officers, investment managers, investment advisors, national bodies such as Chartered Institute of Public Finance and Accountancy (CIPFA), National Association of Pensions Funds Ltd (NAPF), The Pensions Regulator (TPR), etc.

iii) provision of and reading of relevant material e.g. research, briefing papers, website content, industry magazines, etc.

Individual Needs and Training

3.13. The CIPFA Framework provides for self-assessment to identify training needs.

- Appendix 1 provides further details of the 6 core competencies and members are asked to review this to self-assess any personal knowledge and skills requirements they feel they may have.

- For officers this will be part of the Council's Employee Review and Development (PDR- personal development review) process to identify any specific individual officer training needs.

3.14. Having reviewed these learning assessment tools, members may wish to approach relevant officers to discuss any individual queries or training needs they may have identified. It is important that members appreciate that an in depth understanding of all the core knowledge areas is neither assumed nor necessary. In many cases what the framework expects is only an understanding or awareness of the area, and knowledge of where more detailed knowledge should be sought. This means that members are not necessarily expected to have in depth knowledge of a matter, but a general awareness of the issue and understanding of when to challenge officers, seek further information from them and to be aware of where they might source further information if required.

3.15. Following this meeting of the Committee, officers will follow up with members to capture feedback from the self-assessment process. An annual report on training will be considered by the Pension Policy & Investment Committee and Board, to ensure that training needs are regularly assessed and training arrangements developed.

Local Pension Board

3.16. The Local Pension Board was established on 1 April 2015 under the provisions of section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013.

3.17. The regulations require that pension board members must meet certain legal requirements that relate to their knowledge and understanding. Members must:

- have a working knowledge of the scheme rules and of any policy document for the scheme; and
- have knowledge and understanding of the law relating to pensions.

3.18. The Pension Regulator and CIPFA have produced material to assist with training needs assessment and the acquisition of the identified knowledge and skills that are described in the following sections. Pension Board members should take advantage of either or both of these learning resources, if required, to help ensure the attainment of the appropriate level of knowledge and understanding.

3.19. Following the meeting of the Pension Board and this Committee, officers will follow up with members to capture feedback from the self-assessment process. An annual report on training will be considered by the Pension Policy & Investment Committee and Board, to ensure that training needs are regularly assessed and training arrangements developed.

The Pensions Regulator

3.20. The Pensions Regulator (tPR) is the UK regulator of work-based pension schemes. The Pensions Regulator works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

3.21. The principal aim of the Pension Regulator is to prevent problems from developing. The Regulator uses their powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes, and employers on the right track for the long term.

3.22. The Pensions Regulator also provides training resources. On the Pension Regulator website there is a learning assessment tool available which is a useful resource to help Pension Board members identify any training requirements. http://www.thepensionsregulator.gov.uk/public-serviceschemes/knowledge-and-understanding-duty-on-board-members.aspx

3.23. The Pensions Regulator also provides a free online learning programme called the Public Service toolkit which Pension Board members should complete; https://education.thepensionsregulator.gov.uk/login/index.php. These resources are freely available to all members and officers.

CIPFA: Local Pension Boards A Technical Knowledge and Skills Framework (TKSF)

3.24. This TKSF has been developed following the introduction of the Public Pensions Act 2013. This is an extension of the previous CIPFA Knowledge and Skills framework (para 3.5) which had to be revised to include specific reference to the knowledge and skills required by Pension Board Members.

3.25. TKSF is intended to have two primary uses:

i) as a tool to help organisations establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members.

ii) as an assessment tool for individuals to measure their progress and plan their development in order to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of a pension board

3.26. The TKSF covers eight key areas:

i) Pensions Legislation

ii) Pensions Governance

iii) Pensions Administration

iv) Pensions account and auditing standards

v) Pensions services procurement and relationship management

vi) Investment performance and risk management

vii) Financial markets and products knowledge

viii)Actuarial methods standards and practices.

3.27. This framework will be adopted by the fund to assist with planning and monitoring training for Pension Board members.

3.28. Enfield Council members can register on the CIPFA website (http://www.cipfa.org/) to download copies of the whole framework document or can contact the officers for assistance in accessing a copy of the framework.

3.29. Appendix 2 provides a copy of the Self-Assessment Matrix from this framework. Pension Committee members may consider referencing this to identify any training requirements.

3.30. A very short training session to ensure that all Members and Observers of the Pension Policy & Investment Committee have an understanding of the roles, responsibilities and statutory documents of the fund would arrange early next year.

3.31. Details of training being delivered are being recorded by officers to be included in the Pension Fund Annual Report as an annual disclosure in line with the CIPFA framework expectations.

Training Programme 2018/19

3.32. The following training programme is proposed for the remainder of the 2019/20

Date	Event and Core Knowledge & Skills Areas Covered	Potential Attendees
July - September	**Fund Managers Training and Seminars** ▪ Pensions legislative & governance context ▪ Pensions Accounting and Audit Standards ▪ Investment performance	All
October - December	**Officers / Pension Fund Actuary & Investment Consultant training sessions** ▪ Financial markets & products knowledge ▪ Triennial Valuation ▪ Investment performance ▪ Pensions Legislation /Administration ▪ Actuarial methods, standards & practices	All
January - March	**AON / CIPFA Pension Network Workshop** **Fund Managers Training seminars** ▪ Financial markets & products knowledge ▪ Investment Strategy ▪ Risk management ▪ Pensions legislative & governance context	All

3.33. The training programme can be revised based on member feedback and an additional training requirement emerging from discussion of this report and self-assessment of needs (para 3.16 and 3.20).

3.34. A training programme for 2020/21 would be tabled at a future Committee meeting incorporating the training needs analysis outcome of members for discussion and approval.

3.35. The Enfield Pension Fund Training and Development Policy attached as Appendix 3, is produced based on the “CIPFA knowledge and skills framework (2010)” which provides a framework for the training and development of members/observers with the objective of improving knowledge and skills in all relevant areas of the activity of managing a Pension Scheme.

4. **ALTERNATIVE OPTIONS CONSIDERED**

4.1. There is no alternative.

5. **REASONS FOR RECOMMENDATIONS**

5.1. This Governance is defined as the action, manner or system of governing. Good governance is vital and is promoted in the context of a pension scheme/fund by having Members and Observers on the decision making body who have the ability, knowledge and confidence to challenge and to make effective and rational decisions. The “CIPFA knowledge and skills framework (2010)” provides a framework for the training and development of members/observers with the objective of improving knowledge and skills in all relevant areas of the activity of a Pensions Board.

6. **COMMENTS FROM OTHER DEPARTMENTS**

6.1. **Financial Implications**

The total cost of training detailed within this report for committee members, board members and relevant officers, will be approximately £15k and will be funded through the pension fund.

6.2. **Legal Implications**

Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge.

7. **KEY RISKS**

7.1. Any form of decision making process inevitably involves a degree of risk.

7.2. Effective training and development will help Members to gain sufficient knowledge and skills necessary to make appropriate decisions in minimising risk associated with their roles and responsibilities.

Background Papers

i) Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector, CIPFA (2010)

ii) Investment decision making and disclosure in the Local Government Pension Scheme, A Guide to the Application of the Myners Principles, CIPFA (2009)

Appendices

Appendix 1 - CIPFA Knowledge and Skills Framework for Members
Appendix 2 - Self-Assessment Matrix
Appendix 3 - Enfield Pension Fund Training and Development Policy including the Training Record Log For 2019/20

Appendix 1
CIPFA Knowledge and Skills Framework for Members of Pension Committees

Core Areas:
1. Pensions Legislative and Governance Context

General Pensions Framework
A general awareness of the pensions legislative framework in the UK.
Scheme-specific legislation

- An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.
- An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.
- An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
- A regularly updated appreciation of the latest changes to the scheme rules.
- Knowledge of the role of the administering authority in relation to LGPS.

Pensions regulators and advisors
An understanding of how the roles and powers of the Pension Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

General constitutional framework

- Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
- Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

Pensions scheme governance

- An awareness of the LGPS main features.
- Knowledge of the Myners principles and associated CIPFA and Society of Local Authority Chief Executives (SOLACE) guidance.
- A detailed knowledge of the duties and responsibilities of committee members.
- Knowledge of the stakeholders of the pension fund and the nature of their interests.
- Knowledge of consultation, communication and involvement options relevant to the stakeholders.

2. Pensions Accounting and Standards

- Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)

1 – Pensions legislation		
A general understanding of the pensions legislative framework in the UK.	1 2 3 4 5	
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	1 2 3 4 5	
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	1 2 3 4 5	
A regularly updated appreciation of the latest changes to the scheme rules.	1 2 3 4 5	
2 – Pensions governance		
Knowledge of the role of the administering authority in relation to the LGPS.	1 2 3 4 5	
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	1 2 3 4 5	
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	1 2 3 4 5	
A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.	1 2 3 4 5	
An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.		1 2 3 4 5	
A detailed knowledge of the duties and responsibilities of pension board members.		1 2 3 4 5	
Knowledge of the stakeholders of the pension fund and the nature of their interests.		1 2 3 4 5	
Knowledge of consultation, communication and involvement options relevant to the stakeholders.		1 2 3 4 5	
Knowledge of how pension fund management risk is monitored and managed.		1 2 3 4 5	
An understanding of how conflicts of interest are identified and managed.		1 2 3 4 5	
An understanding of how breaches in law are reported.		1 2 3 4 5	
3 – Pensions administration			
An understanding of best practice in pensions administration eg performance and cost measures.		1 2 3 4 5	
Understanding of the required and adopted scheme policies and procedures relating to: • member data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communication and materials.		1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	**Rate my skills** 1 – no knowledge 5 – highly skilled	**Training requirements**	**Training plan (sources and timing)**

Knowledge of how discretionary powers operate.	1 2 3 4 5	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	1 2 3 4 5	
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	1 2 3 4 5	
An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	1 2 3 4 5	
4 – Pensions accounting and auditing standards		
An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	1 2 3 4 5	
An understanding of the role of both internal and external audit in the governance and assurance process.	1 2 3 4 5	
An understanding of the role played by third party assurance providers.	1 2 3 4 5	
5 – Pensions services procurement and relationship management		
An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.	1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)

A general understanding of the main public procurement requirements of UK and EU legislation.	1 2 3 4 5	
An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	1 2 3 4 5	
An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	1 2 3 4 5	
6 – Investment performance and risk management		
An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	1 2 3 4 5	
An awareness of the Myners principles of performance management and the approach adopted by the administering authority.	1 2 3 4 5	
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	1 2 3 4 5	

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Appendix 3
London Borough of Enfield Pension Fund Training and Development Policy

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XY

www.enfield.gov.uk

Pension Policy and Investment Committee

Introduction

This is the Training & Development Policy of the London Borough of Enfield Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Enfield Council. The Policy details the training strategy for members of the Pension Policy & Investment Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pension Policy & Investment Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Enfield Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.
Enfield Council has delegated responsibility for the implementation of this Training & Development Policy to the Executive Director of Resources.

Aims and Objectives

Enfield Council recognises the significance of its role as Administering Authority to the London Borough of Enfield Pension Fund on behalf of its stakeholders which include:

- over 22,000 current and former members of the Fund, and their dependants
- about 40 employers within the Enfield Council area or with close links to Enfield Council
- the local taxpayers within the London Borough of Enfield.

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Pension Policy & Investment Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

This Policy has been put in place to assist the Fund in achieving these objectives and all Pension Policy & Investment Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Enfield Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and

- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

As well as any other LGPS specific guidance relating to the knowledge and skills of Pension Policy & Investment Committee members, Pension Board members or pension fund officers which may be issued from time to time.

This Training & Development Policy applies to all Members of the Pension Policy & Investment Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Enfield Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and Pension & Treasury Manager and his/her team.

The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Enfield Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Enfield Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Enfield Council will provide appropriate training for them.

This is considered separately in the London Borough of Enfield Pension Fund Administration Strategy.

CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pension Policy & Investment Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

i) Pensions legislation
ii) Public sector pensions governance
iii) Pension accounting and auditing standards
iv) Pensions administration

v) Financial services procurement and relationship management
vi) Investment performance and risk management
vii) Financial markets and products knowledge
viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.
These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the London Borough of Enfield Pension Fund

Enfield Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Enfield Council adopts the principles contained in these publications in relation to the London Borough of Enfield Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

The London Borough of Enfield Pension Fund Training and Development Plan

Enfield Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pension Policy & Investment Committee members, Pension Board members and senior officers, and that training is a key element of this process. Enfield Council will develop a rolling Training Plan based on the following key elements:

1) **Individual Training Needs**: A training needs analysis will be developed for the main roles of Pension Policy & Investment Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

2) **Hot Topic Training**: The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

3) **General Awareness**: Pension Policy & Investment Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Enfield Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pension Policy & Investment Committee member, a Pension Board member or the specific role of the officer.
The Pension Policy & Investment Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:
- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Policy & Investment Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Enfield Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Enfield Pension Fund website where useful London Borough of Enfield Pension Fund specific material is available.

In addition London Borough of Enfield Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pension Policy & Investment Committee, the Pension Board or the London Borough of Enfield Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Enfield Pension Fund:

i) The members' guide to the Local Government Pension Scheme (LGPS)
ii) The latest Actuarial Valuation report
iii) The Annual Report and Accounts, which incorporate:
    a. The Funding Strategy Statement
    b. The Governance Policy and Compliance Statement
    c. The Statement of Investment Principles including the London Borough of Enfield Pension Fund's statement of compliance with the LGPS Myners Principles
    d. The Communications Policy
    e. The Administration Strategy
iv) The administering authority's Discretionary Policies
v) The Training Policy

In addition, an individual training plan will be developed to assist each Pension Policy & Investment Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

To identify if Pension Policy & Investment Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
ii. Hot Topic Training – attendance by at least 80% of the required Pension Policy & Investment Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Policy & Investment Committee members, Pension Board members or senior officers depending on the subject matter.
iii. General Awareness – each Pension Policy & Investment Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pension Policy & Investment Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

i. Changes in Pension Policy & Investment Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.
ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pension Policy & Investment Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
iii. Insufficient resources being available to deliver or arrange the required training.
iv. The quality of advice or training provided not being to an acceptable standard.

The Pension Policy & Investment Committee members, with the assistance of London Borough of Enfield senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

Reporting

A report will be presented to the Pension Policy & Investment Committee on an annual basis setting out:

i. The training provided / attended in the previous year at an individual level
ii. Attendance at Pension Policy & Investment Committee and Pension Board meetings
iii. The results of the measurements identified above.

This information will also be included in the London Borough of Enfield Pension Fund's Annual Report and Accounts.
At each Pension Policy & Investment Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Enfield Pension Fund.

Approval, Review and Consultation

This Training and Development Policy to be approved and at the London Borough of Enfield Pension Policy & Investment Committee meeting of 21 November 2019. This Training and Development Policy to be adopted by the London Borough of Enfield Pension Board at their next meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:

Bola Tobun
Pension & Treasury Manager
London Borough of Enfield
Civic Centre
Silver Street
London
EN1 3XF
E-mail Bola.Tobun@enfield.gov.uk
Telephone 020 8379 6879

Appendix 1
CIPFA Knowledge and Skills Framework for Members of Pension Committees

Core Areas:
1. Pensions Legislative and Governance Context

General Pensions Framework
A general awareness of the pensions legislative framework in the UK.
Scheme-specific legislation
- An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.
- An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.
- An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
- A regularly updated appreciation of the latest changes to the scheme rules.
- Knowledge of the role of the administering authority in relation to LGPS.

Pensions regulators and advisors
An understanding of how the roles and powers of the Pension Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

General constitutional framework
- Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
- Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

Pensions scheme governance
- An awareness of the LGPS main features.
- Knowledge of the Myners principles and associated CIPFA and Society of Local Authority Chief Executives (SOLACE) guidance.
- A detailed knowledge of the duties and responsibilities of committee members.
- Knowledge of the stakeholders of the pension fund and the nature of their interests.
- Knowledge of consultation, communication and involvement options relevant to the stakeholders.

2. Pensions Accounting and Standards
- Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)

1 – Pensions legislation		
A general understanding of the pensions legislative framework in the UK.	1 2 3 4 5	
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	1 2 3 4 5	
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	1 2 3 4 5	
A regularly updated appreciation of the latest changes to the scheme rules.	1 2 3 4 5	
2 – Pensions governance		
Knowledge of the role of the administering authority in relation to the LGPS.	1 2 3 4 5	
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	1 2 3 4 5	
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	1 2 3 4 5	
A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.	1 2 3 4 5	
An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.		1 2 3 4 5	
A detailed knowledge of the duties and responsibilities of pension board members.		1 2 3 4 5	
Knowledge of the stakeholders of the pension fund and the nature of their interests.		1 2 3 4 5	
Knowledge of consultation, communication and involvement options relevant to the stakeholders.		1 2 3 4 5	
Knowledge of how pension fund management risk is monitored and managed.		1 2 3 4 5	
An understanding of how conflicts of interest are identified and managed.		1 2 3 4 5	
An understanding of how breaches in law are reported.		1 2 3 4 5	
3 – Pensions administration			
An understanding of best practice in pensions administration eg performance and cost measures.		1 2 3 4 5	
Understanding of the required and adopted scheme policies and procedures relating to: • member data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communication and materials.		1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled	Training requirements	Training plan (sources and timing)

Knowledge of how discretionary powers operate.	1 2 3 4 5	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	1 2 3 4 5	
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	1 2 3 4 5	
An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	1 2 3 4 5	
4 – Pensions accounting and auditing standards		
An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	1 2 3 4 5	
An understanding of the role of both internal and external audit in the governance and assurance process.	1 2 3 4 5	
An understanding of the role played by third party assurance providers.	1 2 3 4 5	
5 – Pensions services procurement and relationship management		
An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.	1 2 3 4 5	

Appendix 2 Local Pension Boards: A Technical Knowledge and Skills Framework: Learning needs analysis and training requirements

Do I possess...?	**Rate my skills** 1 – no knowledge 5 – highly skilled	**Training requirements**	**Training plan (sources and timing)**

A general understanding of the main public procurement requirements of UK and EU legislation.	1 2 3 4 5	
An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	1 2 3 4 5	
An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	1 2 3 4 5	
6 – Investment performance and risk management		
An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	1 2 3 4 5	
An awareness of the Myners principles of performance management and the approach adopted by the administering authority.	1 2 3 4 5	
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	1 2 3 4 5	

Enfield Pension Fund Training Record Log For 2019/20 **Appendix 3**

Name:

Please circle as applicable: Board / Committee

Date	Training Title	Organisation	Topics covered	Trainers	Recommendation

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XY

www.enfield.gov.uk

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MUNICIPAL YEAR 2019/2020 REPORT NO. 222

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
27th February 2020

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item: 12**
Subject: Pension Policy and Investment Committee Work Plan, Pension Fund Business Plan and Budget for 2020/21	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

i. The purpose of this report is to set out a business plan for the Pension Fund that outlines the Fund's goals and objectives in delivering the Council's statutory function as the administering authority of the London Borough of Enfield Pension Fund.

ii. The Executive Director of Resources is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters.

iii. The London Borough of Enfield Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

iv. A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

2. RECOMMENDATIONS

Members are asked to:

i) note the contents of this report;

ii) consider and approve the Business Plan attached as Appendix 1 to this report and

iii) consider and approve work plan for 2020/21 attached as Appendix 2.

3 BACKGROUND

3.1 The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

3.2 The key decision making for, and management of, the Fund has been delegated by the London Borough of Enfield (the Council) to a formal Pension Committee, supported by officers of the Council and advisers to the Pension Fund. The Section 151 Officer has a statutory responsibility for the proper financial affairs of the Council including Fund matters. A local pension board is in place to assist with:

- securing compliance of Fund matters and
- ensuring the efficient and effective governance and administration of the Fund.

3.3 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

3.4 **The primary objectives** of the Fund are sub-divided into specific areas of ***governance***, ***funding, investments, administration and communications*** which are covered in turn below.

3.5 **Governance Objectives**

1) All staff, Pension Board and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
2) The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties.
3) To understand and ensure compliance with all relevant legislation.
4) To ensure the Fund aims to be at the forefront of best practice for LGPS funds
5) Ensures the Fund manages Conflicts of Interest

3.6 **Funding Objectives**

6) To ensure the long-term solvency of the Fund.
7) To help employers recognise and manage pension liabilities as they accrue.

8) To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
9) 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. (Including: addressing the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective).

3.7 **Investment Objectives**

10) Optimising the return on investment consistent with a prudent level of risk
11) Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
12) Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
13) Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
14) Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns (and minimise the cost of benefits) for an acceptable level of risk'). Ensure return seeking assets are in line with Funding objectives.

3.8 **Administration Objective**

15) To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

3.9 **Communications Objective**

16) Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

<u>WORK PLAN</u>

3.10 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Fund Business Plan. The Pension Policy and Investment Committee Work Plan has therefore been developed using the business plan attached as appendix 1 to this report.

3.11 An annual Work Plan will be presented to the Committee for agreement. The Work Plan should be presented to the Committee by the last Committee meeting of the prior financial year to which the Work Plan applies.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the

Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying out its duties.

5. REASONS FOR RECOMMENDATIONS

5.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.

5.2 The proposed business plan for the Fund has been put together to assist in the management of the Fund and to ensure that the Council is able to perform its role as the administering authority in a structured way. The Business Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.

5.3 The Pension Policy and Investment Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore, it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

i) The performance of the Pension Fund investments affects the required level of contributions due from employers.

ii) LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. The investment of Pension Fund cash has been kept separate from Enfield Council's investments but invested in accordance with the Council's Treasury Management Strategy.

iii) Sound financial management of the Pension Fund, including budget-setting, helps ensure that the Pension Fund is run in an efficient and cost-effective manner. Poor management of the Pension Fund finances would result in increased costs, which would need to be met through higher employer contributions to the Pension Fund.

6.2 Legal Implications

i) Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.

ii) The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

iii) One of the functions of the Pension Policy and Investment Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

iv) Members of this Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council. This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.

v) When making decisions regarding investment of pension funds, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

7. **KEY RISKS**

i. A Business plan, work plan and budget should result in a more efficient process of managing the Pension Fund.

ii. The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Enfield Pension Fund.

Background Papers
None

Appendices
Appendix 1 – Enfield Pension Fund Business Plan
Appendix – Pension Policy and Investment Committee Work Plan for 2020/21

Appendix 1

BUSINESS PLAN 2020-2023

In order to meet the objectives of the Pension Fund, the Pensions Board has to review the business plan and the Pensions Committee has to review and agree the business plan for the period 2020-2023. This has to be put into the context of a period of significant uncertainty for the Fund, which reflects not just ongoing volatility in investment markets, but also measures for structural reform which could have a fundamental impact on the overall management of the Fund.

The purpose of the business plan is to:

a) explain the background and objectives of London Borough of Enfield for the management of the Enfield Pension Fund
b) document the priorities and improvements to be implemented by the pension administration service during the next three years to help achieve those objectives
c) enable progress and performance to be monitored in relation to those priorities
d) provide staff, partners and customers with a clear vision for the next three years.

Set out in the table below is the 3 year business plan for the Pension Fund:

	2020/21	2021/22	2022/23	Primary Objective Reference (s)
Governance Objectives				
Draft Pension Fund Accounts	March - May	March - May	March - May	1,2,3,7,13,15,16
Approve Final Pension Fund Annual Report & Accounts	June - November	June - November	June - November	1,2,3,7,13,15,16
Employer Forum	November - January	November - January	November - January	3,4,7,8,9,15,16
Review Risk Register	Quarterly	Quarterly	Quarterly	1,2,5,6,7,8,9,10, 11,12,13
TPR Code of Practice	Quarterly	Quarterly	Quarterly	1,2,3,4,5
Governance Policy Review	December - March	December - March	December- March	1,2,3,4,5
Self-Assessment & Review of Advisers	December - March	December - March	December – March	1,2,3,4,5
Induction Training for New Members	May – July (As Required)	May – July (As Required)	May – July (As Required)	1, 2, 4,15
Member’s Training	Quarterly	Quarterly	Quarterly	1,2,4,15
Training Policy Review	November – February	November – February	November – February	1,3,4

	2020/21	2021/22	2022/23	Primary Objective Reference (s)
Pensions Board –Annual Reporting	Mar - July	Mar - July	Mar - July	1 - 16
Review Performance, funding and budget	Quarterly	Quarterly	Quarterly	1 - 16
AVC Review	September – January		September – January	1,2,3,4,5
Review Reporting Breaches Policy	September	September	September	10,15,16
Review Conflicts of Interest Policy Review	September	September	September	5
Creation & Review Cessation Policy	April - June	April - June	April - June	5,6,7,8,9,15,16
Funding Objectives				
Preparation and Update of Actuarial Valuation	As Required	As Required	As Required	5,6,7,8,9,15,16
Review of Funding Strategy Statement	As Required	As Required	As Required	5,6,7,8,9,15,16
Investments Objectives				
Review Investment Strategy Statement	February - September	As required	As required	1,3,10,11,12,13, 14 ,15,16
Investment in Low Carbon	April - July			1,2,4,10,11,12, 13,14,15
Investment in Clean Energy, Renewable Energy and or Private Debt	July - December			1,2,4,10,11,12, 13,14,15
Review Investment Consultancy Contract	June	June	June	5,10,11,12,13, 14,15
Review Actuarial Services Contract	September	September	September	5,10,11,12,13, 14,15
Strategic Asset Allocation – Regular Review	Ongoing	Ongoing	Ongoing	1,4,6,8,9,10,11, 12,13,14
Carbon Footprint Audit	December - June	December - June	December - June	5,6,7,8,9,15,16
Pension Fund Treasury Management Strategy	February - June	February - June	February - June	1,9,10,11,12,13, 14,15
Individual Manager Review	Quarterly	Quarterly	Quarterly	1,2,4,10,11,12, 13,14,15
Asset/Liability Monitoring	Ongoing	Ongoing	Ongoing	5,10,11,12,13, 14,15,16
Collaborative working- London CIV	Ongoing	Ongoing	Ongoing	1,2,4,10,11,12, 13,14,15

	2020/21	2021/22	2022/23	Primary Objective Reference (s)
Pension Administration				
Pension Administration Strategy	April - June	January – March	January – March	1,2,3,7,9,15,16
GMP Reconciliation	April-September	April-September		1,2,3,15,16
Employer data Improvements	Ongoing	Ongoing	Ongoing	1,2,3,7,9,15,16
Administering Authority Discretions Review	April - June	April - June	April - June	1,2,3,4,5,9,10, 15,16
Admitted Bodies Policy	September	September	September	1,2,3,4,5,9,10,15, 16
Employing Authority Discretions	April - June	April - June	April - June	1,2,3,4,5,9
Communications				
Annual Benefit Statements	August	August	August	15,16
Auto-Enrolment /Workplace Pensions	Ongoing	Ongoing	Ongoing	1,2,3,15,16
Communications Policy Review	January-March	January-March	January-March	1,2,3,15,16
Annual General Meeting (AGM)	June	June	June	1,2,3,4,7,8,9,15, 16

Appendix 2

PENSION POLICY AND INVESTMENT COMMITTEE

Work Plan

2020/21

Date of Meeting	Items	Title of Report / Presentation	Contact Officer
June 2020	1	Members Training – Roles and Responsibilities in LGPS and Investment Strategy	
	2	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Pension & Treasury Manager
	3	Quarterly Administrative Key Performance Indicators Report	Pension Manager
	4	Annual Review of Investment Strategy Statement and Funding Strategy Statement	Pension & Treasury Manager
	5	Receive Compliance Checklist for the Pensions Regulator Code of Practice	Pension & Treasury Manager/Pensions Manager
	6	Review of Draft Annual Report	Pension & Treasury Manager
	7	Review of Pensions Administration Policy	Pensions Manager
September 2020	1	Members Training – Index Linked Assets / Private Debt	
	2	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Pension & Treasury Manager
	3	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	4	Review of actuarial services	Pension & Treasury Manager
	5	Review of investment advice services	Pension & Treasury Manager
	6	Review of Governance Compliance Statement	Pension & Treasury Manager
	7	Noting of Audit Outcome and Approval of Annual Report and Accounts	Pension & Treasury Manager
	8	Pension Administration Strategy Review	Pensions Manager
	9	Review London CIV services and Report on LCIV update and development	Pension & Treasury Manager

November 2020	1	Members Training – Index Linked Assets / Private Debt	Various
	2	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Pension & Treasury Manager
	3	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	4	Review of custodian service	Pension & Treasury Manager
	5	Review of Risk Register	Pension & Treasury Manager
	6	Receive TPR Compliance Checklist	Pension & Treasury Manager/Pensions Manager
	7	Review of Reporting Breaches Policy and Conflicts of Interest Policy	Pension & Treasury Manager
	8	Receive report on GMP	Pensions Manager
March 2021	1	Members Training	
	2	Quarterly Performance Reporting of Fund Managers and update on emerging /current issues	Pension & Treasury Manager
	3	Quarterly Administrative Key Performance Indicators Report	Pensions Manager
	4	Report and approval of valuation outcome	Pension & Treasury Manager
	4	Report on Fund Managers performance and costs	Pension & Treasury Manager
	5	Review of Communications Policy Statement	Pensions Manager
	6	Report on Corporate Governance, Stewardship, Engagement & Share Voting	Pension & Treasury Manager
	7	Review of Training Policy	Pension & Treasury Manager
	8	Carbon Footprint Audit	Pension & Treasury Manager
	9	PPIC and Pension Fund Work Plan and Budget 2020/21	Pension & Treasury Manager

MUNICIPAL YEAR 2019/2020 REPORT NO. 225

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
27th February 2020

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item: 13**
Subject: Final 2019 Triennial Valuation Results and Funding Strategy Statement **Wards: All** **Key Decision No:**	

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

This report brings the Final results of 2019 triennial actuarial valuation of the **whole Fund** and the Funding Strategy Statement (FSS) to the Committee for approval.

Over the three year valuation cycle to 31 March 2019 the funding level has increased to 103%	The Fund is now in surplus position from deficit position of £131.9m as at 31st March 2016 with a gain of £171.2m to a surplus position of £39.3m as at 31st March 2019.
The Fund's asset has increased over the period, by £269.2m, and liabilities increased by 98m	The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87% in 2016. And Fund's assets were £1,185.5m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103% in 2019.
The key elements of gain or loss leading to this change in funding level are investment profit, demographic and financial assumptions	The three major changes to the assumptions are: i) Investment returns above the discount rate adopted at the 2016 valuation, given rise to a gain of about £140m ii) A reduction in the long-term improvement in pensioner longevity given rise to a gain of about £82m iii) The fall in the real discount rate given rise to £70m loss (which on its own worsened the funding position).
Aggregate Employers contribution rate change from 22.8% to 20% (including 1.5% McCloud allowance)	Employees contributions are set by the Government, so employers must pay the balance of any cost in delivering the benefits to members. The cost of future benefits on the 2019 valuation result has decreased significantly.

1. EXECUTIVE SUMMARY (continue)

Fund Employers' has been consulted and no dispute	The Funding Strategy Statement (FSS) focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

2. RECOMMENDATIONS

The Committee is recommended to:

- approve the final results of 31st March 2019 triennial actuarial valuation attached to this report as Appendix 1 and the employer contribution rates therein; and
- final Funding Strategy Statement (FSS) of Enfield Pension Fund attached to this report as Appendix 2.

3. BACKGROUND

3.1 The 2019 Final valuation results demonstrated the funding position of the **Fund as a whole** has significantly improved.

3.2 The valuation report is set out in Appendix 1. The highlights are that since the last valuation was carried out as at 31st March 2016:

i) The funding level has improved from 87% to 103%.

ii) In monetary terms the Fund is now in surplus from deficit position of £131.9m at 31st March 2016 and has improved by £171.2m to a surplus position of £39.3m at 31st March 2019.

iii) The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87% in 2016. And Fund's assets were £1,185.5m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103% in 2019 as shown below.

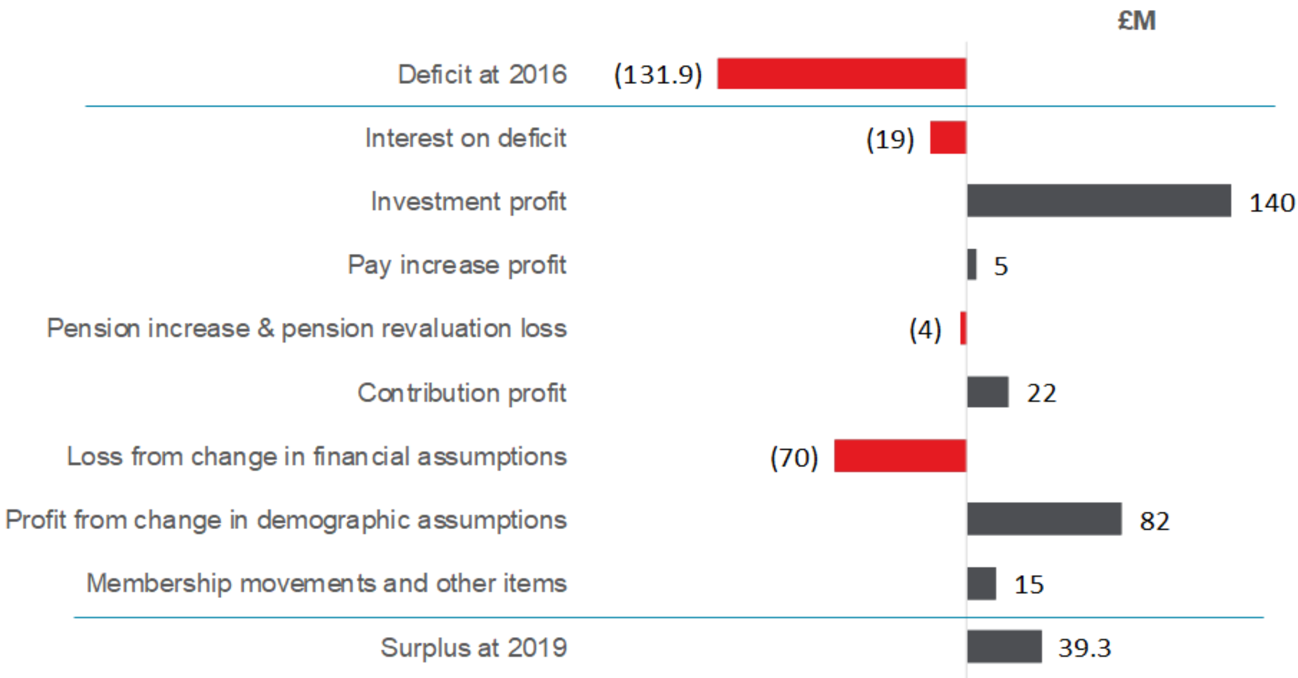
Assumption	31st March 2016 Valuation Results	31st March 2019 Initial Valuation Results
Main scheduled body funding target:		
Probability of funding success	69%	80%
Discount rate	**4.50%**	**4.20%**
Ongoing orphan funding target:		
In service discount rate	4.10%	3.30%
Left service discount rate	2.50%	1.60%
RPI inflation	3.10%	3.20%
CPI inflation (pension increases / CARE reva	2.00%	2.10%
Post 88 GMP pension increases	1.80%	1.90%
Pay inflation	3.50%	3.60%
Value of Assets	£916.3m	£1185.5m
Value of Liabilities	(£1.048.2m)	(£1,146.2m)
(Deficit)/Surplus	**(£131.9m)**	**£39.3m**
Funding Ratio	**87%**	**103%**
Primary Contribution	17.70%	18.50%
Secondary Contribution **(to reduce deficit)**	**5.10%**	**0%**
Extra -ordinary Contribution **(possible cost of McCloud)**		**1.50%**
Total Employer Contribution	**22.80%**	**20.00%**

3.3 The table shown above analyse the change in the deficit. The main reason for the for Fund to be in surplus are as follows:

i) Investment returns above the discount rate adopted at the 2016 valuation, giving rise to a gain of approximately £140m

ii) A reduction in the long term improvement in pensioner longevity giving rise to a gain of about £82m

iii) The fall in the real discount rate causing a £70m loss (which on its own worsened the funding position).



3.4 It is noticeable from the chart above, that the elements of the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results; whereas the assumptions that are outside the Council's control (gilt yields and inflation during the valuation period) have had a negative impact on the results.

Contribution Rates

3.5 The contribution rates carried out by the Fund Actuary (AON) at the valuation, are made up of two elements:

i) the estimated cost of future benefits being accrued, ***(the "Primary Rate")*** – this is the cost of an officer earning an extra year of pension benefit; plus

ii) an adjustment for the funding position of the benefits accrued in the past – usually where there is a deficit in the pension fund, ***(the "Secondary Rate")***. If there is a deficit/surplus there will be an increase/decrease in the employer's contribution rate, with the surplus or deficit spread over an appropriate period.

3.6 ***Individual Employer Contribution Rates*** - While the fund is managed as a whole, it is effectively a number of sub funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as a percentage of pensionable pay. Employee contributions are payable in addition to the employer contributions.

3.7 The cost of benefits that members will earn in the Fund are shown below, alongside the results from the previous valuation.

% of Pensionable Pay	Previous valuation results	2019 result (80% PoFS)
Value of benefits accruing	23.5%	24.2%
Death in service lump sum	0.3%	0.2%
Expenses	0.5%	0.7%
Less member contributions	(6.6%)	(6.6%)
Net Employer cost pre McCloud (Primary contribution rate)	17.7%	18.5%

3.8 The results of the previous valuation as at 31 March 2016 were as follows:

i) The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87%.

ii) The assessed employer cost of future service benefits was 17.7% of pay across the Fund as a whole.

iii) Additional contributions of 5.1% of pay were required to return the Fund to fully funded over 19 years.

3.9 The results of 31 March 2019 valuation are as follows:

iv) The Fund's assets were £1,185m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103%.

v) ***Primary rate*** - the assessed employer cost of future service benefits was 18.5% of pay across the Fund as a whole and 1.5% (in money terms £10.6m) to be added as an allowance for possible cost of McCloud / Cost cap for past service liability over 19 years.

vi) ***Secondary rate*** - no additional contribution is required as the Fund is fully funded for the next 19 years provided the primary rate is maintained.

Changes affecting benefits/membership

3.10 Since the last valuation, the following developments have affected or may affect Fund benefits / membership:

3.11 Extension of the interim arrangements whereby full pension increases on Guaranteed Minimum Pensions (GMPs) are to be met by the Fund for members reaching State Pension Age (SPA) between 1 April 2016 and 5 April 2021.

3.12 The Government being denied leave to appeal the McCloud/Sargeant judgement which found that the transitional protections granted to members within 10 years of pension age in the Firefighters' and Judges' pension schemes when those schemes were reformed in 2015 was illegal age discrimination. Following the Ministerial Statement on 15 July, this is expected to lead to changes being required to all of the public service schemes.

3.13 The introduction of an exit cap which may affect the extent to which employers can waive part or all of the early retirement reductions in certain circumstances.

3.14 Changes in the SCAPE discount rate and longevity assumptions on which many of the Scheme-wide actuarial factors, including early and late retirement factors, are based.

Uncertainties

3.15 There are a number of uncertainties regarding the benefits payable to LGPS members which may affect the valuation results. The actuary has made an approximate allowance for these uncertainties in this result, at a whole of Fund level only. These uncertainties relate to:

i) GMP equalisation and indexation after 5 April 2021

ii) The cost management process

iii) The remedy which may be agreed in relation to the McCloud/Sargeant case

3.16 The actuary's final valuation report is set out in Appendix 1. The Pension Fund is required by statute to publish a Funding Strategy Statement (FSS), to keep the Statement under review and to revise it whenever there is a material change in the policy set out within it.

Funding Strategy Statement (FSS)

3.17 The Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

3.18 The FSS set out in Appendix 2 has been drawn up by the Fund's actuary, in conjunction with Officers of the Council. The Pension Fund previously published a FSS following the 2016 valuation and this has been updated to reflect changes made for the 2019 valuation.

3.19 In accordance with Regulation 58(3), all employers participating within the London Borough of Enfield Pension Fund would be consulted on the contents of this Statement and their views would be taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole

3.20 As set out in the FSS the objectives of the statement are to:

a) 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;

b) ensure that employer contribution rates are reasonably stable where appropriate;

c) 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);

d) 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

e) 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.

3.21 In addition to the objectives set out above, the FSS also sets out the different treatments for different types of employers ranging from tax raising bodies such as the Council and other scheduled bodies such as Academies to Community and Transferee Admission Bodies. Various factors are considered during the contribution setting process, including the funding target (the assets required to pay member benefits), the time horizon and the probability of reaching the funding target over that time horizon. Each of these factors may be varied according to employer type, as this will influence the level of risk posed by each employer.

3.22 The FSS also covers the links to investment strategy which are set out in Investment Strategy Statement. The investment strategy for the Pension Fund is set for the longer term. The investment strategy is an important and time consuming activity that the Committee needs to devote its time to. This may include dedicated strategy meetings to consider the longer term investment strategy for the Fund as well as looking at options for risk reduction over the longer term, should the funding level improve.

3.23 The FSS includes a number of detailed appendices covering key points around responsibilities, risks and regulations.

3.24 The FSS would be circulated in draft to all employers who participate in the Enfield Pension Fund to allow comments to be made prior to its finalisation. Employers would be invited to respond with any comments by Monday 2nd December 2019

3.25 Following the consultation, the FSS will be considered and approved by the Committee at its 27th February 2020. Comments received from consultation will be brought to the attention of the Committee.

3.26 The Committee are asked to consider and agree the draft Funding Strategy Statement for consultation with other employers in the Fund.

4. ALTERNATIVE OPTIONS CONSIDERED

i) There is no alternative because the requirements to carry out the triennial revaluation and prepare a Funding Strategy Statement are prescribed in regulations

5. REASONS FOR RECOMMENDATIONS

i) Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) together with the guidance issued by CIPFA provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

ii) Following consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy with all relevant interested parties involved with the fund – for example, local authority employers, admitted bodies, scheduled/resolution bodies.

iii) The administering authority will prepare and publish its funding strategy by having have regard to: -

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate;

iv) The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the statement of investment principles or investment strategy statement.

v) The revised FSS should be completed and approved by the Pension Committee (or equivalent) prior to the completion of each valuation.

vi) The Fund actuary must have regard to the FSS as part of the fund valuation process.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

i) There are no immediate financial implications arising from this report, although investment performance has an impact on the Council’s employer contribution to the Pension Fund and this is a charge to the General Fund.

ii) The funding level for London Borough of Enfield **(as a single employer)** stands at 102%, improving from 87% previously as shown in the table below.

iii) The employers' contribution rate for the London Borough of Enfield **(as a single employer)** is currently set at 24.8% for 2019/20. This has reduced to 20.2% as a result of the 2019 triennial review.

Probability of Funding Success	Balance sheet at this valuation		Current contributions		Theoretical contributions 2020/2021				
	Surplus / (deficit) £M	Funding level	Current contribution rate % pay	Additional amount 19/20 £000s	Recovery period (years)	Future Service Rate % pay, before addition for McCloud	Total Rate % pay, before addition for McCloud	Addition for McCloud % pay	Total rate (including McCloud)
80%	21.2	102.0%	24.8%	0.0	19	18.7%	18.7%	1.5%	20.2%

6.2 Legal Implications

i) The Constitution delegates to the Pension Policy & Investment Committee the function of setting the overall strategic objectives for the Pension Fund.

ii) Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

iii) When preparing, maintaining or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.

iv) When reviewing the funding strategy statement, the Council is required to have regards to:
- the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and
- the Council's statement of investment principles/Investment Strategy Statement.

v) The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to a and b above as required.

vi) When performing its functions as administrator of the LB Enfield pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

7. KEY RISKS

i) All material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

ii) The Funding Strategy Statement forms part of the broader framework for funding and management of the London Borough of Enfield Pension Fund. It sets out how the Fund will approach the future funding of its liabilities and the recovery periods for recovering any deficit.

Background Papers – None

Appendices
Appendix 1 – 2019 Triennial Actuarial Valuation Results
Appendix 2 – Funding Strategy Statement (February 2020)

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Civic Centre, B Block South
Silver Street, Enfield
London EN1 3XF

2019 Valuation - Progress on Employer results
London Borough of Enfield Pension Fund
Position as at 14 February 2020

Employer Name	Tranche number	Date Issued	Queries Outstanding	Contributions (2020/21)	Contributions (2021/22)	Contributions (2022/23)	Comment
London Borough of Enfield	1	01/11/2019	No	20.2%	20.2%	20.2%	Advised within Initial Results Paper
Enfield Voluntary Action	1	01/11/2019	No	20.2%	20.2%	20.2%	Grouped with London Borough of Enfield
Reed Momenta	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Sodexo	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Elior UK	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Olive Dining - Nightingale	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Olive Dining - Aylward	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Birkin Services - Nightingale	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Edwards and Blake (St Ignatius School Catering)	Individual	04/02/2020	No	20.2%	20.2%	20.2%	
North London Home Care	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Purgo Supply Services	1a	13/12/2019	No	20.2%	20.2%	20.2%	
Attigo Academy Trust	2	15/11/2019	No	19.3% plus £8,100	19.3% plus £8,400	19.3% plus £8,700	
Aylward Academy	2	15/11/2019	No	19.4%	19.4%	19.4%	
Capel Manor College	2	15/11/2019	No	17.3%	17.3%	17.3%	
Cedars Learning Trust	2	15/11/2019	No	19.1% plus £11,800	19.1% plus £12,200	19.1% plus £12,600	
Enfield Grammar Academy	2	15/11/2019	No	21.0%	21.0%	21.0%	
Fusion Lifestyle	Individual	29/01/2020	No	0.0%	0.0%	0.0%	Issued on 15 November. Re-dated on 29 Jan.
Jewish Community Academy Trust	2	15/11/2019	No	22.4% plus £400	22.4% plus £400	22.4% plus £400	
Kingsmead School	2	15/11/2019	No	18.6%	18.6%	18.6%	
Nightingale Academy	2	15/11/2019	No	15.7%	15.7%	15.7%	
Norse Commercial Services	Individual	24/01/2020	No	25.0%	25.0%	25.0%	The Fund has confirmed that this employer is required to pay 25% and therefore we have agreed to certify 25% in the Rates and Adjustments Certificate.
Oasis Community Learning	2	15/11/2019	No	17.2%	17.2%	17.2%	
Adnan Jaffrey Trust	3	29/11/2019	No	17.4%	17.4%	17.4%	
Cuckoo Hall Academies Trust	3	29/11/2019	No	17.9%	17.9%	17.9%	
Outward Housing	3	29/11/2019	No	0.0%	0.0%	0.0%	
Ivy Learning Trust	3	29/11/2019	No	19.2% plus £11,000	19.2% plus £12,000	19.2% plus £12,000	
Edmonton County Academy	4	19/12/2019	No	18.8%	18.8%	18.8%	Revised: originally included in Tranche 2 but superseded
Enfield Learning Trust	4	19/12/2019	No	19.7%	19.7%	19.7%	Revised: originally included in Tranche 3 but superseded
Southgate School Academy	4	19/12/2019	No	17.7%	17.7%	17.7%	Revised: originally included in Tranche 3 but superseded
Ark John Keats Academy	4	19/12/2019	No	15.3%	15.3%	15.3%	
Meridian Angel Primary School	4	19/12/2019	No	17.3%	17.3%	17.3%	

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Appendix 2

London Borough of Enfield Pension Fund Funding Strategy Statement

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XY

www.enfield.gov.uk

Pension Policy and Investment Committee

Funding Strategy Statement (FSS)

1. Introduction

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

It has been reviewed by the Administering Authority in collaboration with the Fund's Actuary, Aon Hewitt. This revised version replaces the previous FSS and is effective from 1 April 2020.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations'). The Statement describes London Borough of Enfield strategy, in its capacity as Administering Authority, for the funding of the London Borough of Enfield Pension Fund.

As required by Regulation 58(4)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004 and updated guidance published by CIPFA in September 2016.

In accordance with Regulation 58(3), all employers participating within the London Borough of Enfield Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

1.2 Review of FSS

The FSS is reviewed in detail at least every three years ahead of the triennial valuation being completed. Annex 1 is updated more frequently to reflect any changes to employers.

The Administering Authority will monitor the funding position of the Fund on a regular basis between valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries, please contact Bola Tobun in the first instance at bola.tobun@enfield.gov.uk
or on 0208 379 6879

2. Purpose

2.1 Purpose of FSS

The Ministry for Housing, Communities & Local Government (MHCLG) stated that the purpose of the FSS is to set out the processes by which the Administering Authority:

- *"establishes a* ***clear and transparent fund-specific funding strategy,*** *that will identify how employers' pension liabilities are best met going forward;*
- *supports desirability of maintaining* ***as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013****;*
- *ensures that the regulatory requirements to set contributions so as to ensure the* ***solvency and long-term cost efficiency*** *of the Fund are met;*
- *takes a* ***prudent longer-term view*** *of funding those liabilities."*

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

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence of the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfers in and investment income; and
- pays scheme benefits, transfers out, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations.

Three objectives of a funded scheme are:

- to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative;
- not to unnecessarily restrain the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk; and
- to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.

Therefore it is the aim of the Fund to enable employer contribution levels to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers alike.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex 2.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to comply with regulation 62 of the LGPS Regulations, and specifically:
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to ensure the long-term solvency and long term cost efficiency of the Fund as a whole and the solvency of each of the sub-funds notionally allocated to individual employers, which should be assessed in light of the risk profile of the Fund and Employers;
- to minimise the degree of short-term change in the level of employers' contributions where the Administering Authority considers it reasonable to do so;
- 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;
- to address the different characteristics of the disparate employers or groups of employees, to the extent that this is practical and cost effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*" or the primary contribution rate; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's funding target, the "*past service adjustment"*. If there is a surplus there may be a contribution reduction. If there is a deficit, there may be a contribution addition, with the surplus or deficit spread over an appropriate period. This is known as the secondary contribution.

The Fund's Actuary is required by the regulations to report the *Primary Contribution Rate*[1], for all employers collectively at each triennial valuation. There is no universally agreed interpretation of the composition of the Primary Rate across Local Government Pension Scheme Funds. For the purpose of publishing a Primary Contribution Rate, the aggregate future service rate is used.

The Fund's Actuary is also required to adjust the Primary Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay, and this is referred to as the Secondary employer contribution requirement.

In effect, the *Primary Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer, or pool, together with individual past service adjustments according to employer (or pool) -specific spreading and phasing periods.

Any costs of early retirements, other than on the grounds of ill-health, must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss their intentions with the Administering Authority before making any additional capital payments.

3.2 Funding Principle

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

3.3 Funding Targets

Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to

[1] See Regulation 62(5)
[2] See Regulation 62(7)

be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and Funding Success

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term, using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period based on a long-term investment strategy that allows for continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in pensions and pension accounts (CPI).

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target will typically be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers, and asset-liability modelling carried out by the Fund Actuary. For this purpose, the Trajectory Period is defined to be the period of 25 years following the valuation date.

Consistent with the aim of enabling employers' total contribution levels to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that create an unacceptably low chance of achieving the Solvency Target at the end of the Trajectory Period.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date. It is a product of the data, chosen assumptions, and valuation method. The assumptions for the Funding Target are chosen to be consistent with the Administering Authority's desired Probability of Funding Success.

The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

The discount rate, and hence the overall required level of employer contributions, has been set at the 2019 valuation such that the Fund Actuary estimates there is an 80% chance that the Fund would reach or exceed its Solvency Target after 25 years.

Consistent with the aim of enabling employers' contribution levels to be kept as nearly constant as possible:

- Primary contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Application to different types of body

Some comments on the principles used to derive the Solvency and Funding Target for different bodies in the Fund are set out below.

Scheduled Bodies and certain other bodies of sound covenant

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and for certain other bodies which are long term in nature e.g. Admission Bodies with a subsumption commitment from such Scheduled Bodies.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Admission Bodies and certain other bodies whose participation is limited

For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or for the employer to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

3.4 Full funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit.

3.5 Ongoing Funding Basis

Demographic assumptions

The demographic assumptions are intended to be best estimates of future experience in the Fund having regard to past experience in the Fund as advised by the Fund Actuary.

It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. The Administering Authority, in discussions with the Actuary, keeps the longevity experience of the Fund members under review. Contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profile of employers.

Financial assumptions

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that the assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

The problem is that these types of investment are expected to provide higher yields because they are less predictable – the higher yield being the price of that unpredictability. It is therefore imprudent to take advance credit for too much of these extra returns in advance of them actually materialising.

Higher employers' contribution rates would be expected to result if no advance credit was taken. The Administering Authority and the Fund Actuary have therefore agreed that it is sufficiently prudent and consistent with the Regulations to take advance credit for some of the anticipated extra returns, but not all.

3.6 Primary or Future Service Contribution Rates

The Primary (future service) element of the employer contribution requirement is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service.

The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted.

Employers should note that only certain employers have the power not to automatically admit all eligible new staff to the Fund, e.g. certain Admission Bodies depending on the terms of their Admission Agreements and employment contracts.

3.7 Adjustments for Individual Employers

Notional sub-funds

In order to establish contribution levels for individual employers, or groups of employers, it is convenient to notionally subdivide the Fund as a whole between the employers, or group of employers where grouping operates, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or group of assets by any individual employer or group of employers.

Roll-forward of notional sub-funds

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general, no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the Cash Equivalent Transfer Value (CETV) of the members transferring from one employer to the other unless some other approach has been agreed between the two employers.

- Allowance for death in service benefits, ill-health retirement costs and any other benefits shared across all employers (see earlier).

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficit exhibited at the previous valuation. Having established an expected surplus or deficit at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results, perhaps because of unknown internal transfers.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay, the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate over the longer term. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate as used in the calculations, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

3.8 Stability of Employer Contributions

3.8.1 Recovery and Trajectory Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Where a valuation reveals that the employer or employer group’s sub-fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of full funding over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

In the event of a surplus the Administering Authority may at its discretion opt to retain that surplus in the employer’s sub-fund (i.e. base that employer’s contribution on the primary contribution rate alone without any deduction to reflect surplus) or may determine the deduction for surplus so as to target a funding level of higher than 100% at the end of the Recovery Period. At the 2019 valuation the policy adopted by the Administering Authority for most employers in surplus is to target a funding level of 105% at the end of the Recovery Period.

The Trajectory Period and the Recovery Period are not necessarily equal.
The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods for employers with a deficiency and has agreed with the Fund Actuary a limit of 16 years, for employers with a deficiency which are assessed by the Administering Authority as being long term secure employers. For surplus recovery (where applicable) in relation to employers in surplus, the Administering Authority has agreed with the Fund Actuary that a Recovery Period of 19 years will normally be used, or for employers with a fixed term of participation the remaining term of participation may be used as the Recovery Period.

For employers with a deficiency, the Administering Authority's policy is normally to set Recovery Periods for each employer which are as short as possible within this framework, whilst attempting to maintain stability of contribution levels where possible. An exception applies for academies – see subsection 3.9.7. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

3.8.2 Grouped contributions

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped, which other employers it is grouped with, and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate on an ungrouped basis. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Best Value Admission Bodies continue to be ineligible for grouping.

Where employers are grouped for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and spouses pension benefits on death in service as well as ill-health retirement costs – in other words, the cost of such benefits is shared across the employers in the Fund. Such benefits can cause immediate funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low-cost approach to spreading the risk.

3.8.3 Stepping

Again, consistent with the desirability of keeping employer contribution levels as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three annual steps will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

3.8.4 Long-term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes where applicable;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund's investment strategy

3.8.5 Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

3.9 Special Circumstances related to certain employers

3.9.1 Interim reviews

Regulation 64(4) of the LGPS Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to cease at some point in the future, and for the Fund Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to Admission Bodies is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.

- For Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

3.9.2 Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.

- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

3.9.3 Bonds and other securitization

Paragraph 6 of Schedule 2 Part 3 of the LGPS Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the Administering Authority (and Scheme Employer in the case of an Admission Body admitted under paragraph 1 (d)(i) of that part of the Regulations), an assessment taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party.

Where for any reason it is not desirable for an Admission Body to enter into an indemnity bond, the Admission Body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of that admission body.

The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the LGPS Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond from the Admission Body, if any. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor confirms their agreement to the level of bond cover proposed, the Administering Authority will be happy to supply a separate document (provided by the Fund Actuary) to the Admission Body setting out the level of cover that the Administering Authority and Scheme Employer/Guarantor consider suitable. Again, this should not be construed as advice relevant to the Admission Body on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations or Admission Bodies admitted under that Part of the Regulations where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant and Admission Bodies admitted under Paragraph 1(e) of Part 3, Schedule 2 of the Regulations where there is no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. As such, the Administering Authority will obtain some "standard" calculations from the Fund Actuary to assist them to form a view on what level of bond would be satisfactory. The Administering Authority will be pleased to supply this calculation to the Scheme Employer or Guarantor, where relevant, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor, where relevant, confirms their agreement to the level of bond proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/Guarantor, where relevant, consider suitable, but this should not be constructed as advice relevant to the Admission Body on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer or Guarantor, where relevant, to jointly review the required cover with it regularly, at least once a year.

3.9.4 Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally, this will mean assuming continued investment in more risky investments than Government bonds.

3.9.5 Orphan liabilities

Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the notional assets of the other employers participating in the Fund.

3.9.6 Cessation of participation

Where an employer ceases participation, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

Unless the Administering Authority has agreed to the contrary, the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds.

For subsumed liabilities, the Administering Authority may in its absolute discretion instruct the Actuary to value those liabilities using the Funding Target appropriate to the accepting employer.

The departing employer will be expected to make good any deficit revealed in the exit valuation. The fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the employer.

In relation to employers exiting on or after 14 May 2018, where there is an agreement between the departing employer and the accepting employer that a condition of accepting the liabilities is that there is to be no exit credit to the exiting employer on exit, all of the assets which are notionally allocated to the liabilities being accepted will transfer to the accepting employer and no exit credit will be paid to the departing employer.

In all other cases where the exit valuation above shows a surplus in relation to employers exiting on or after 14 May 2018, an exit credit will be paid to the exiting employer within 3 months of the later of (a) the exit date; and (b) the date when the employer has provided the Fund with all requisite information in order for the Fund to facilitate the exit valuation.

3.9.7 Academies

Academies are scheduled bodies and, as such, have an automatic right to join the LGPS. Guidance has been issued by the Secretaries of State for Education and Communities and Local Government but in practice differing approaches are being taken when setting the funding strategy for academies.

New Academy conversions

In future for a new academy conversion while the London Borough of Enfield's sub-fund is in deficit, the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Enfield Group sub-fund retaining liability for former employees;
- Allocate a share of assets from the London Borough of Enfield's sub-fund to the new academy's sub-fund based on what is known as a "prioritised share of fund" approach. This means that the academy will inherit an appropriate share of the deficit attributable at conversion to the London Borough of Enfield's former employees as well as the academy's own employees.
- Set contribution levels prior to the next valuation in line with the London Borough of Enfield's contribution rate, provided this leads to a Recovery Period for the Academy which is no longer than the Recovery Period for the London Borough of Enfield. In the latter case the Recovery Period would be set to coincide with the Recovery Period for the London Borough of Enfield and a contribution level determined accordingly.

In future for a new academy conversion while the London Borough of Enfield's sub-fund is in surplus, the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Enfield Group sub-fund retaining liability for former employees;
- Allocate a share of assets from the London Borough of Enfield's sub-fund to the new academy's sub-fund which is equal to the value placed on the liabilities upon conversion for the academy's current employees.
- Set contribution levels prior to the next valuation in line with the London Borough of Enfield's future service ("primary") contribution rate.

The same principles as above apply for the allocation of assets and liabilities in cases where a local authority school is being converted to join a Multi Academy Trust. However, the contribution level required will be in line with the rate applicable to the Multi Academy Trust.

Existing academies and Multi Academy Trusts

Where contributions are reviewed at triennial valuations, the same principles apply in relation to existing academies and Multi Academy Trusts as for other employers.

The exception is that for academies which converted on or after 1 April 2017 with a deficit and whose sub-fund has subsequently remained in deficit (and where the London Borough of Enfield's sub-fund is also in deficit at that valuation), the contribution levels for the academy will normally be set in line with the London Borough of Enfield's rate provided this leads to a Recovery Period not longer than the relevant period for the London Borough of Enfield (in which case the Recovery Period will be set to coincide with the Recovery Period for the London Borough of Enfield).

3.9.8 Admission Bodies with 10 members or fewer

In the case of an Admission Body which has 10 members or fewer (active members, deferred pensioners and pensioners) at a triennial valuation date or on its admission to the Fund between valuations, the Administering Authority may at its sole discretion permit/require the employer to pay the same long-term total % of pay contribution rate as applies for the London Borough of Enfield.

The above approach (which can involve higher/lower contribution levels being required than might be the case if the contributions were set on an employer-specific basis) is adopted in the interests of simple and cost-effective administration, having weighed up the advantages of the approach against the associated risks. The Administering Authority will keep the approach under review at future valuations.

3.10 Early Retirement Costs

3.10.1 Non Ill-Health retirements

The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires early (see below) with no reduction to their benefit or receives an enhanced pension on retirement. The current costs of these are calculated by reference to formulae and factors provided by the Actuary.

In broad terms it assumed that members' benefits on retirement 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. Members receiving their pension unreduced before this age, other than on ill-health grounds, are deemed to have retired early. The additional costs of premature retirement are calculated by reference to this age.

4. Links to investment strategy

Funding and investment strategy are inextricably linked. The investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment strategy

The investment strategy currently being pursued is described in the Fund's Investment Strategy Statement.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property.

The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The lowest risk strategy is not necessarily likely to be the most cost-effective strategy in the long-term.

The Fund's benchmark includes a significant holding in equities and other growth assets, in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently operate different investment strategies for different employers.

4.2 Consistency with funding bases

The Administering Authority recognises that future experience and investment returns cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, the more likely that outcome will sit towards the favourable end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the Probability of Funding Success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying low risk position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

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

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

Enabling employers to follow alternative investment strategies would require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies would need to be assessed against the costs.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of regular monitoring.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks most likely to impact upon the funding strategy are summarised below under the following headings:

- Investment
- Employer
- Liquidity and maturity
- Liability
- Regulatory and compliance;
- Recovery period; and
- Stepping.

5.2 Investment Risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Commission regular funding updates for the Fund as a whole, on an approximate basis.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations.*
Systematic risk with the possibility of interlinked and simultaneous financial market volatility	*The Fund's assets are diversified by asset class, geography and investment managers. The diversification serves to reduce, but not eliminate, the investment risk associated with financial market volatility. The Fund regularly monitors its investment strategy.*
Insufficient funds to meet liabilities as they fall due	*Commission regular funding updates for the Fund as a whole, on an approximate basis. Analyse progress at three yearly actuarial valuations.*
Inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon	*Regular review of advisers in line with national procurement frameworks*
Counterparty failure	*The Fund regularly reviews its investment managers to review the risk of operational and counterparty failure for its pooled fund investments. For segregated mandates the Fund employs a global custodian to provide safekeeping. The custodian is reviewed on a periodic basis.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to	*Inter-valuation monitoring, as above. Some investment in bonds helps to*

rise in value placed on liabilities	*mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employers' contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Employer Risk

Risk	**Summary of Control Mechanisms**
These risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.	*The Administering Authority will put in place a funding strategy statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admitted) and other pension fund stakeholders.* *The Administering Authority will also consider building up a knowledge base on their admitted bodies and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and use this information to inform the Funding Strategy Statement.*

5.4 Liquidity and maturity Risk

Risk	Summary of Control Mechanisms
The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfer of responsibility between different public sector bodies; scheme changes which might lead to increased opt-outs; the implications of spending cuts – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.	*To mitigate this risk the Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations and deficit contributions may be expressed in monetary amounts (see Annex 1).* *In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes. It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements to avoid failing to commission the Fund Actuary to carry out an exit valuation for a departing Admission Body and losing the opportunity to call in a debt.*
There is also a risk of employers ceasing to exist with insufficient funding or adequacy of a bond.	*The risk is mitigated by seeking a funding guarantee from another scheme employer, or external body, wherever possible and alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. The Administering Authority also vets prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from the extra cost of early retirements on redundancy if the employer failed.*

5.5 Liability Risk

Risk	Summary of Control Mechanisms
The main risks include inflation, life expectancy and other demographic changes, interest rate and wage and salary inflation which will all impact on future liabilities.	*The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.* *If significant liability changes become apparent between valuations, the Administering Authority will notify all employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Admission Bodies* admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations.

5.6 Regulatory and compliance risk

Risk	Summary of Control Mechanisms
The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.	*The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.* *In particular, for the 2019 valuation, there is currently significant uncertainty as to whether improvements to benefits and/or reductions to employee contributions will ultimately be required under the cost management mechanisms introduced as part of the 2014 Scheme, and also as to what improvements to benefits will be required consequent on the "McCloud" equal treatment judgement. The Administering Authority will consider any guidance emerging on these issues during the course of the valuation process and will consider the appropriate allowance to make in the valuation, taking account of the Fund Actuary's advice. At present the Administering Authority considers an appropriate course of action for the 2019 valuation is to include a loading within the employer contribution rates certified by the Fund Actuary that reflects the possible extra costs to the Fund as advised by the Fund Actuary. It is possible that the allowance within contribution rates might be revisited by the Administering Authority and Fund Actuary at future valuations (or, if legislation permits, before future valuations) once the implications for Scheme benefits and employee contributions are clearer.*

5.7 Recovery Period

Risk	Summary of Control Mechanisms
Permitting surpluses or deficits to be eliminated over a Recovery Period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements, and/ or that the objective of long-term cost efficiency is not met.	*The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.*

5.8 Stepping

Risk	Summary of Control Mechanisms
Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process, and/or that the objective of long-term cost efficiency is not met.	*The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.*

Annex 1 – Responsibilities of Key Parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are set out below.

The Administering Authority should:

- operate the pension fund
- collect investment income and other amounts due to the Fund as set out in the LGPS Regulations including employer and employee contributions;
- pay from the Fund the relevant entitlements as set out in the relevant Regulations;
- invest surplus monies in accordance with the Investment Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the Fund against consequences of employer default;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain a FSS and a Investment Strategy Statement (ISS), both after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/ISS as appropriate; and
- effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer.
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

The Individual Employers should:

- deduct contributions from employees' pay correctly;
- pay all ongoing contributions, including their own as determined by the Fund Actuary, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain;

- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- pay any exit payments as required in the event of their ceasing participation in the Fund; and
- note and if desired respond to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies.

The Fund Actuary should prepare advice and calculations and provide advice on:

- funding strategy and the preparation of the Funding Strategy Statement
- will prepare actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations
- bulk transfers, individual benefit-related matters such as pension strain costs, compensatory added years costs, etc
- valuations of exiting employers, i.e. on the cessation of admission agreements or when an employer ceases to employ active members
- bonds and other forms of security for the Administering Authority against the financial effect on the Fund and of the employer's default.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Administration Regulations.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

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