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LOCAL PENSION BOARD

Thursday, 23rd January, 2020 at 2.30 pm in the Room 6, Civic Centre, Silver Street, Enfield, EN1 3XA

Membership:

Councillors : Ayfer Orhan, Vicki Pite and Andy Milne

AGENDA – PART 1

- 1. WELCOME & INTRODUCTIONS (CHAIR)**
- 2. DECLARATIONS OF INTEREST (5 MINUTES) CHAIR**

Members of the Council are invited to identify any disclosable pecuniary, other pecuniary or non-pecuniary interests relevant to the items on the agenda.
- 3. MINUTES OF MEETING 17 OCTOBER 2019 (5 MINUTES) CHAIR (Pages 1 - 6)**

To agree the minutes of the meeting 17 October 2019.
- 4. STANDING ITEMS (10 MINUTES) BOLA TOBUN - TO FOLLOW**
 - a) Register of breaches of the law
 - b) Risk Register
 - c) TPR Governance Compliance Update
- 5. INITIAL 2019 TRIENNIAL VALUATION RESULTS AND FUNDING STRATEGY STATEMENT (15 MINUTES) BOLA TOBUN (Pages 7 - 80)**
- 6. PENSION ADMINISTRATION PERFORMANCE AND UPDATE (10 MINUTES) TIM O'CONNOR (Pages 81 - 82)**

- 7. REVIEW OF GOVERNANCE COMPLIANCE STATEMENT (10 MINUTES) BOLA TOBUN**
- 8. PROCEDURES FOR RECORDING AND REPORTING BREACHES OF THE LAW (10 MINUTES) BOLA TOBUN (Pages 83 - 108)**
- 9. CONFLICT OF INTEREST POLICY (10 MINUTES) BOLA TOBUN (Pages 109 - 134)**
- 10. REVIEW OF TRAINING AND DEVELOPMENT POLICY AND MEMBER TRAINING NEEDS ANALYSIS (10 MINUTES) BOLA TOBUN (Pages 135 - 148)**
- 11. UPDATE FROM PENSION POLICY & INVESTMENT COMMITTEE MEETING 21 NOVEMBER (20 MINUTES) BOLA TOBUN (Pages 149 - 156)**
- 12. DATE OF FUTURE MEETINGS**

Members are asked to note the date of future meeting as follows:

- Thursday 16 April 2020, 2:30pm

MINUTES OF THE MEETING OF THE LOCAL PENSION BOARD HELD ON THURSDAY, 17TH OCTOBER, 2019

MEMBERS: Councillor Ayfer Orhan, Paul Bishop (LPB Member) and Pauline Kettless (LPB Member)

Officers:

Gareth Robinson (Head of Service, Corporate Finance), Bola Tobun (Finance Manager, Tim O'Connor (Pension Manager) and Susan O'Connell (Governance & Scrutiny Officer)

Also Attending: Neil Sellstrom (Pensions & Investment Research Consultants Limited)

261. WELCOME & INTRODUCTIONS (CHAIR)

Members introduced themselves and were welcomed to the meeting.

Apologies were received from Cllr Andy Milne, Cllr Vicki Pite, Tracey Adnan, Androulla Nicou, Victor Ktorakis, Julie Barker and Matt Bowmer.

262. DECLARATION OF INTERESTS - CONFLICTS OF INTEREST REGISTER (5 MINUTES) CHAIR

Cllr Orhan declared a non-pecuniary interest as a family member is a member of a Local government Scheme.

Pauline Kettless declared a non-pecuniary interest as a member of a Local Government Scheme.

Paul Bishop declared a non-pecuniary interest as a member of a Local Government Scheme.

Pension Board Members are advised that these interests must be declared at every meeting.

263. MINUTES OF THE MEETING 18 JULY 2019

The minutes of the meeting 18 July 2019 were agreed subject to the following minor amendment.

Declarations of interests- Conflicts of interest

Cllr Orhan declared a non-pecuniary interest as a family member was a member of a Local Government Pension Scheme.

LOCAL PENSION BOARD - 17.10.2019**264. LONDON AUTHORITY PENSION PERFORMANCE UPDATE PIRC PRESENTATION (30 MINUTES) NEIL SELLSTROM (NO PAPERS)**

Neil Sellstrom from Pensions & Investment Research Consultants Limited (PIRC) gave a presentation.

NOTED

- PIRC have provided this service for the last three years.
- The presentation included both universe results and Enfield results.
- 2018/19 show that despite a difficult economic and political environment the average Local Authority fund produced a return of 6.6%. Private equity had performed the best giving a return of 15.3 with infrastructure and alternatives also doing well (11.7% and 10.3% respectively).
- What has done less well are emerging market equities, which are particularly volatile by definition and equity protection.
- The Universe performance showed that larger funds performed relatively better than their small peers. Lancashire was the best performing fund and Havering the worst. Tim O'Connor to circulate an article on Lancashire.
- How the universe performed relative to benchmark was less positive with only 6 funds outperforming by more than 1% while 22 underperformed by more than that margin.
- Looking at longer term universe performance showed thirty-year return averages of 8.4%, almost 6% per annum above inflation
- Strong alternative performance has been driven by private equity.
- Asset allocation changes over time showed little changes over the last decade.
- The fund structure of Enfield Pension Funds Results showed that Enfield has one of the most complex funds in the LGPS with a substantial number of portfolios less than 5% of the value of the fund. This is an issue that officers will be picking up and looking into.
- Enfield's Performance relative to benchmark showed that in the latest year the Fund performed well ahead of benchmark. However, at portfolio level these were very mixed, with some performing really well and some performing very badly. Benchmarks are set by the Committee based on asset allocation.
- Performance relative to Peers showed the fund performed well above average ranking 24th percentile.
- The fund performance over 3,5,10 and 20 years showed while the Fund outperformed its benchmark over the medium term it has trailed its peers. This reflects the more cautious asset allocation that the Fund has in place.
- The range of investments available has increased markedly. Diversification has an impact on return, volatility and fund efficiency.
- The range and complexity of asset types and products has led to a greater reliance on consultants.

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The Chair thanked Neil for his very helpful presentation.

265. STANDING ITEMS (10 MINUTES) BOLA TOBUN

- a.) Register of breaches of the law- there were no known or recorded breaches of the law up to the date of this meeting.
- b.) Risk Register, Bola Tobun drew attention to the following:
 - Impact of moving to a low carbon investment Strategy on the Fund's fiduciary duty
 - Impact of the McCloud Judgement on the 2019 valuation process – could increase employers' contribution by up to 0.9%

A report on these will come to the next meeting

- c.) TPR Governance Compliance Improvement Plan Update, Bola Tobun drew attention to the following:
 - Page 39 (E) of the agenda pack lists 4 interconnected items that require attention
 - Section K is outstanding, officers are working on this and aim to complete this work by the end of the year
 - Officers will review and report back to the Board, what has been done and what is outstanding including a checklist.

266. LB ENFIELD PENSION BOARD WORK PLAN (10 MINUTES) BOLA TOBUN

Bola Tobun, Finance Manager introduced the report.

NOTED

- The report provided details of the Core functions of the Board as listed in the terms of reference (under section 50-51).
- Aligned with this are actions listed in the workplan that TPR has asked the Board to undertake
- The workplan is a working document so members can raise queries with this document.

The Chair said it was really helpful to link the workplan with the numbering from the terms of reference.

AGREED:

1. Recommendation 2.1 to note the contents of this report
2. Recommendation 2.2 to note the pension board terms of reference attached as Appendix 1 to the report
3. Recommendation 2.3 to approve the workplan attached as Appendix 2 to the report.

267. PENSION ADMINISTRATION PERFORMANCE AND UPDATE (10 MINUTES) TIM O'CONNOR

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Tim O'Connor, Pensions Manager introduced the report

NOTED

- The general updates as detailed in the report are progressing and are on time
- The work completion as detailed in the report. It was confirmed that divorce refers to pensions statement required by the court. However, it is very rare for pension assets to be allocated as part of a divorce settlement. This refers only to actual cases and it is very rare for those types of cases. Divorce estimates will be included in future updates.

The Chair raised a point on how to keep low paid starters in the scheme, a discussion covered the use of the 50/50 option (paying half rate contribution), also the use of Auto enrolment and the Pensions Manager will look to raise awareness of the scheme with employers before they run their auto enrolment programmes.

Annual Benefit statements – with face to face meetings and the promotion of the AVCwise option are also useful ways to promote the benefits of the scheme.

268. LGPS UPDATE (15 MINUTES) BOLA TOBUN

Bola Tobun, Finance Manager introduced the report

NOTED

- This provided an update on the TPR engagement report, some findings had been disappointing, however on the whole Enfield are performing ok.
- The report lists six measures that must be in place, more work is needed in Enfield on Cyber security and collecting data and data quality
- Actuarial Valuation, there will be a report soon and an employer's forum will take place in December.
- The Board felt it is key to develop more understanding around points 3.10 and 3.17 in the report. They were advised that the actual actuarial outcomes will go to the next PPIC meeting. This could also be something that is explored further at a training session.

AGREED

1. Recommendation 2.1 to note the contents of the report which covers the following matters:
 - The Pensions Regulator's LGPS Engagement Report;
 - McCloud and Cost Management -Further Developments;
 - Actuarial Valuation – Update;
 - SAB Publishes Good Governance Report;
 - CMA Order on Fiduciary Management and Investment Consultants;
 - Survivor Benefits;
 - GAD Section 13 review and data collection;

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- TPR proposes a single combined code of practice;
- Consultation on Future of Trusteeship;
- Update on MHCLG Consultations;
- PASA Launches DB Transfer Guidance; and
- AVC (Additional Voluntary Contribution) Updates

269. PENSION POLICY & INVESTMENT COMMITTEE UPDATE 5 SEPTEMBER (20 MINUTES) BOLA TOBUN

Bola Tobun, Finance Manager introduced the minutes

NOTED

- Cllr Leaver is invited to the meetings of the Local Pension board and is encouraged to attend.
- The Chair queried the decision on consultation as part of the review of the Investment Strategy and whether this will still be going ahead. The consultation will be going ahead and will be undertaken by AON. This is a work in progress; a couple of workshops will be set up to look at the investment strategy. Ideally the consultation will go out in November, an update will be provided to the Board prior to consultation. The Board would like to review the breadth and width of the consultation, who will be targeted and the timescale. It was felt important that this did not overrun or take too long. Gareth Robinson agreed to raise with Cllr Leaver and to come back to Cllr Orhan on this.
- Under the Quarterly Performance Report minutes, the board was concerned that some fund managers had met their targets whilst other had fallen short. The Chair requested information on why Enfield has such a high number of managers and what are the costs. Gareth Robinson agreed to provide this information to Cllr Orhan.

270. DATES OF FUTURES MEETINGS

The dates of future meetings were noted.

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MUNICIPAL YEAR 2019/2020 REPORT NO.**MEETING TITLE AND DATE:**

Local Pension Board
23rd January 2019

REPORT OF:

Director of Finance

Contact officer and telephone number:

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

Agenda – Part:	Item:
Subject: Initial 2019 Triennial Valuation Results and Funding Strategy Statement	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

This report brings the initial results of 2019 triennial actuarial valuation of the **whole Fund** and the Funding Strategy Statement (FSS) to the Board for comments.

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)

PPIC approved, the FSS for employers' consultation

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.

The actuary attended PPIC meeting in November, the outcome and next steps are outlined as follows:

- Discussed the initial results of the Fund with PPIC and agree initial funding target
- Agreed contributions for London Borough of Enfield
- Presented initial results on agreed funding target with PPIC to the employers at the Employers' Meeting of 2nd December 2019.
- Consultation on Funding Strategy Statement (from 21st November to 2nd December 2019)
- Finalising all employer results – November 2019 to January 2020
- To sign off valuation report and Rates & Adjustments Certificate – by 31 March 2020

2. RECOMMENDATIONS

The Board is recommended to:

- Note, consider, comment on the initial results of 31st March 2019 triennial actuarial valuation attached to this report as Appendix 1;
- Note and comment on the Funding Strategy Statement (FSS) of the Enfield Fund attached to this report as Appendix 2; and

3. BACKGROUND

3.1 The current 2019 initial 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:

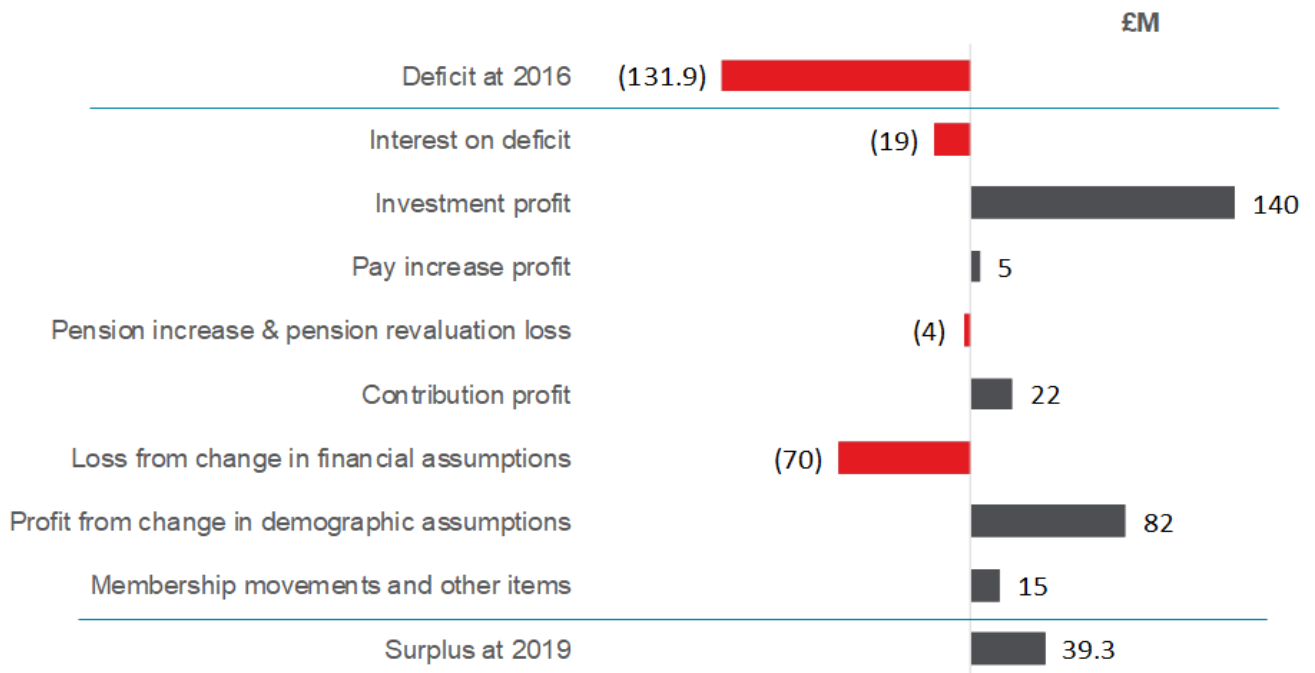
- i) The funding level has improved from 87% to 103%.
- ii) In monetary terms the Fund is now in surplus from deficit position of £131.9m at 31st March 2016 and has improved by £171.2m to a surplus position of £39.3m at 31st March 2019.
- iii) The Fund's assets were £916.3m and the value of the liabilities 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, 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).



- 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 initial results of the current valuation as at 31 March 2019 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 initial 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 initial 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	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 Initial Triennial Actuarial Valuation Results

Appendix 2 – Funding Strategy Statement November 2019

Officer contact details for documents:

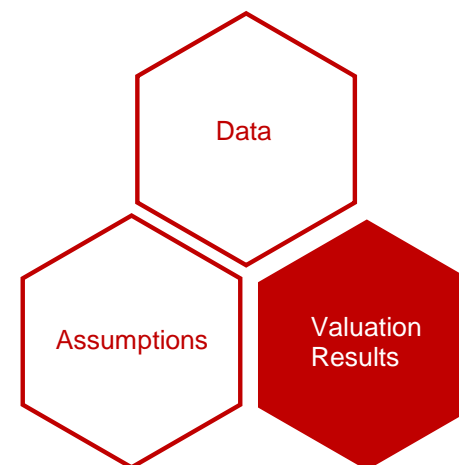
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Actuarial valuation at 31 March 2019 – initial results

London Borough of Enfield Pension Fund

Prepared for	London Borough of Enfield as Administering Authority to the London Borough of Enfield Pension Fund
Prepared by	Jonathan Teasdale FIA, Joel Duckham FIA
Date	1 November 2019

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Introduction and purpose

This paper was commissioned by the Administering Authority. Its purpose is to set out the initial results of the actuarial valuation of the London Borough of Enfield Pension Fund (the Fund) as at 31 March 2019. It also sets out the results of the previous valuation of the Fund at 31 March 2016.

Purpose

The paper covers initial calculations of:

- A target level of assets that we have discussed as being appropriate to meet the benefits that members have already earned (i.e. the past service liabilities), based on a proposed Probability of Funding Success
- The contributions required to bring the assets in line with the possible target and to pay for the benefits that members will earn in the Fund in the future.

This report also sets out the initial financial position of the Fund on a low risk (exit) basis.

The different bases are explained in more detail in Appendix C.

The individual result for the main Council group is set out on page 11.

This paper is intended to be a discussion document to assist the Administering Authority in determining what further advice or calculations are required to help it finalise its funding strategy and employer contributions as part of the 2019 valuation of the Fund.

Results of the previous valuation

The results of the previous valuation as at 31 March 2016 were as follows:

- 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%.
- The assessed employer cost of future service benefits was 17.7% of pay across the Fund as a whole.
- Additional contributions of 5.1% of pay were required to return the Fund to fully funded over 19 years.

Total aggregate employer contributions were certified as follows:

Year from 1 April	% of Pensionable Pay	Additional monetary contributions (£M)
2017	22.9	0.0
2018	23.4	0.0
2019	23.7	0.0

In addition, average members' contributions were 6.6% of Pensionable Pay.

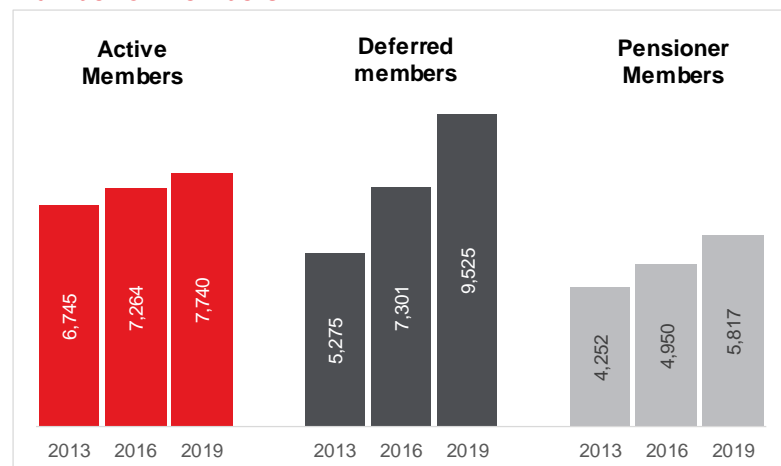
Membership data

The results in this report are based on membership data as at 31 March 2019 supplied to us by the Administering Authority using the universal data extract received on 12 July 2019¹.

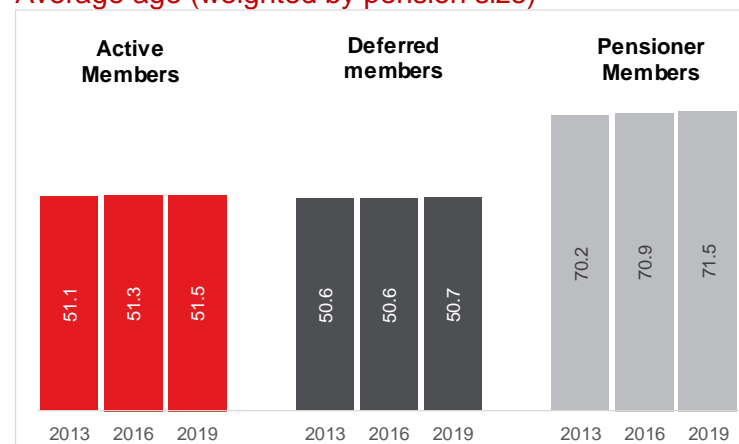
A summary of the membership data used in our calculations is included in Appendix A, alongside the membership data used for the previous valuation.

The charts below show how the membership profile of the Fund has changed over the past three valuations.

Number of members



Average age (weighted by pension size)



During the inter-valuation period, the total number of membership records has continued to increase. Within the number of 'deferred members' shown there are a significant number of 'frozen refunds' where members have not yet elected whether to take a refund of contributions or retain a deferred benefit. This represents 33% of the total deferred records. We have valued the refund where the record includes a frozen refund amount, otherwise we have valued the deferred pension on the record.

¹ We undertook validation tests on the data and raised queries where data was missing or results of our tests were outside tolerance levels. The Administering Authority did not supply any adjusted data in response to those queries. The data summarised in this paper allows for any adjustments or estimations we have made in order to produce the initial results, which includes estimating some data where this was missing. [The Report Framework lists the documents in which we have advised any data changes.] At the date of preparing this paper we have not reconciled the valuation results for each and every employer or group of employers. As part of that reconciliation we may raise additional data queries leading to updated data being supplied. The membership shown in the final valuation report may therefore differ from that shown in this paper.

Membership data (continued)

Changes affecting benefits/membership

Since the last valuation, the following developments have affected or may affect Fund benefits / membership:

- 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.
- 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.
- 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.
- 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

There are a number of uncertainties regarding the benefits payable to LGPS members which may affect the valuation results. Where agreed with the Administering Authority we have made an approximate allowance for these uncertainties in the initial results, at a whole of Fund level only. These uncertainties relate to:

- GMP equalisation and indexation after 5 April 2021
- The cost management process
- The remedy which may be agreed in relation to the McCloud/Sargeant case

Further explanation of these uncertainties is set out in Appendix E.

Initial past service results

The initial results calculated on the proposed basis are shown below alongside the results from the previous valuation at 31 March 2016. Details of the assets and assumptions are set out in Appendices B and C respectively.

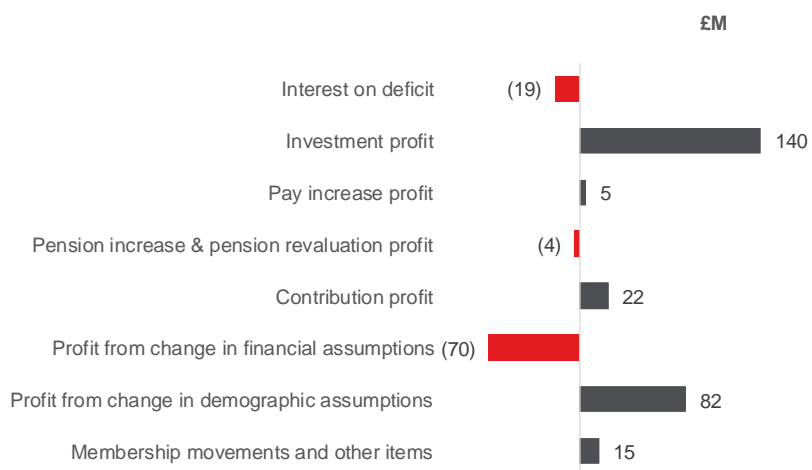
	Previous valuation results	2019 result (80% PoFS)	Exit basis
Probability of funding success (PoFS) (scheduled body funding target)	69%	80%	Not calculated
Value of past service benefits for:			
Actives	£373.9M	£360.3M	£654.4M
Deferreds	£212.1M	£245.4M	£490.3M
Pensioners	£462.2M	£540.5M	£759.5M
Total value of past service liabilities	£1,048.2M	£1,146.2M	£1,904.2M
Value of assets	£916.3M	£1,185.5M	£1,185.5M
Past service surplus/(deficit) (pre McCloud)	(£131.9M)	£39.3M	(£718.7M)
Funding ratio (pre McCloud)	87%	103%	62%
Approximate possible cost of McCloud (see Appendix E for details)	n/a	£10.6M	n/a

By comparing the initial results with the results on an exit basis (where actives are assumed to become deferred and liabilities are valued by setting the discount rate equal to gilt yields) the Administering Authority can quantify the extent to which its funding strategy is dependent on both continued investment in return-seeking assets (to deliver a return above gilt yields) and continued participation of employers (to make contributions in line with the funding plan).

Reasons for change in past service position

The initial valuation results show that the deficit of £131.9M in the Fund at the previous valuation has become a surplus of £39.3M at this valuation (based on an 80% probability of funding success, and before allowance for possible liabilities arising from the McCloud judgement).

The chart below shows the key elements of gain or loss leading to this change. Bars to the right of the centre line show sources of gain relative to the 2016 position, whilst those to the left show losses.



As the chart shows, the main factors which have led to an improvement in the funding position are:

- Investment returns above the discount rate adopted at the 2016 valuation
- Changes to the demographic assumptions (particularly longevity)
- Contributions paid by employers towards paying off the deficit disclosed at the 2016 valuation
- Lower than assumed pay growth on pre-2014 benefits, and other membership changes

These have been partially offset by the following main factor which on its own has worsened the funding position:

- The change in the financial assumptions (principally the fall in the discount rate relative to inflation)

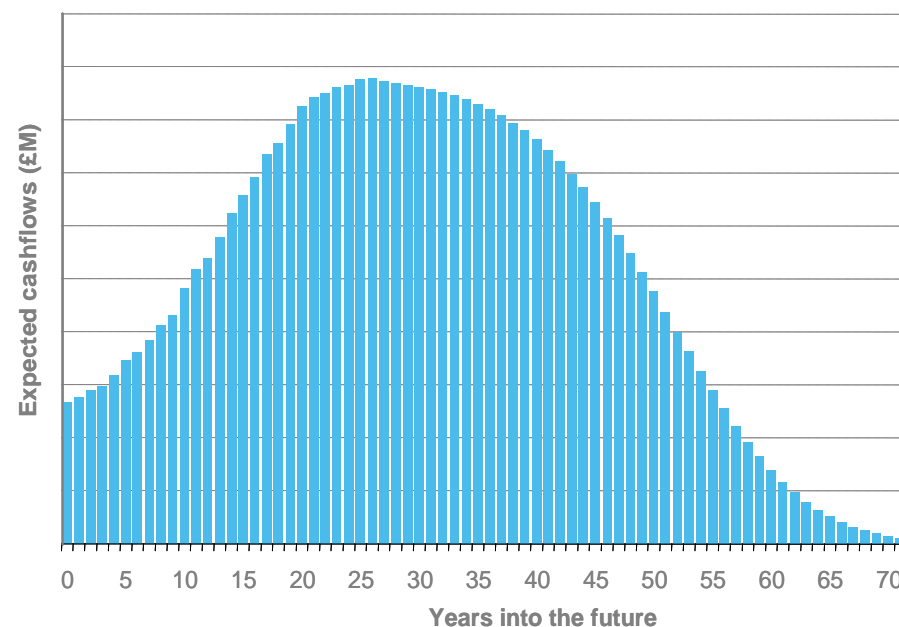
What is the past service liability made up of?

The benefit payments from a pension scheme are expected to be made for a very long period – the chart below shows the cashflow pattern for a sample LGPS fund.

Comments

The projected cashflows for the sample fund relate to past service benefits only and therefore make no allowance for new entrants nor for the future build-up of pension benefits for existing members at the valuation date.

As part of its cashflow management, the Administering Authority should ensure it has cash available to meet all benefit payments to avoid having to disinvest assets at depressed values. This should include projected contributions payable to the Fund as well as projected benefit payments. Further, as the Fund is an open scheme it may be helpful to consider the effect of new entrants and future build-up of benefits on the projected benefit payments and contributions. As funding levels improve and employer deficit contributions fall, consideration may be needed as to whether the Fund's asset strategy will need in future to deliver a greater proportion of returns as income rather than capital growth.

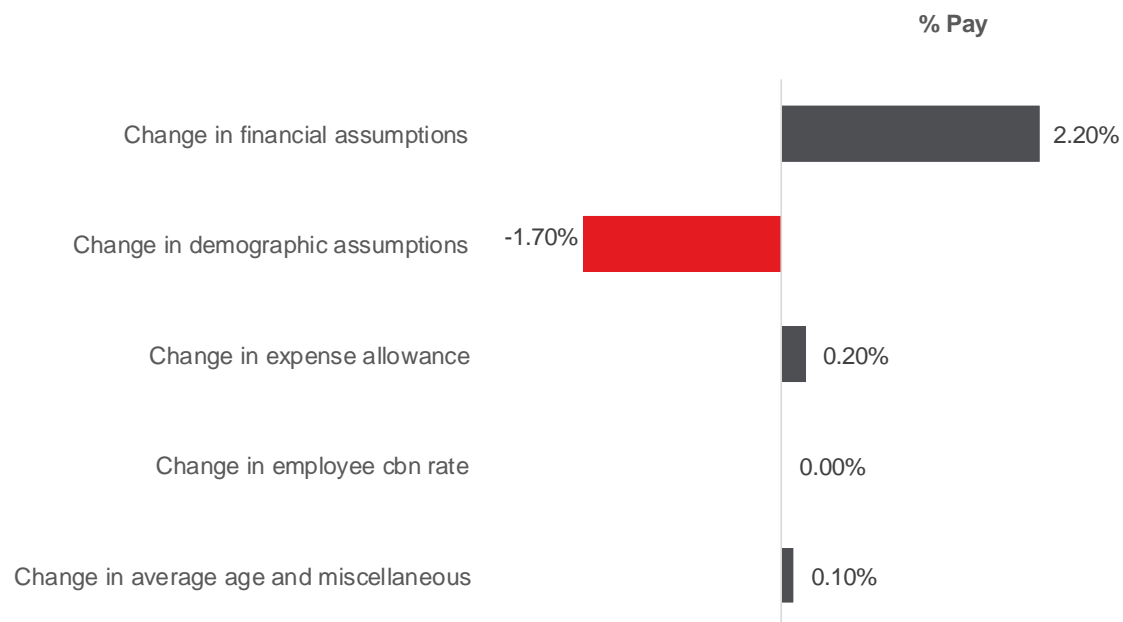


Aggregate Primary Contribution Rate

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%

The cost of future benefits on the 2019 valuation result (based on the proposed probability of funding success) has decreased significantly (as a percentage of Pensionable Pay) since the previous valuation. The main reasons for this are shown below.



As the chart shows, the main factor that has served to reduce the primary contribution rate is the change in the demographic assumptions (in particular the change in the base mortality assumptions and future longevity improvements).

This has however been more than offset by the impact of the change in financial assumptions (principally the decrease in the discount rate relative to inflation under the result based on a probability of funding success of 80%).

Adding in allowance for the possible cost of the McCloud judgement will lead to an increase in the cost.

Employer Past Service ("Secondary") Contributions

It is possible that employer contributions could be reduced below the Primary Contribution Rate due to the surplus in the Fund as at 31 March 2019.

At the 2016 valuation the Fund's funding strategy was to (broadly) achieve a position of 100% funding over 19 years. In practice the deficit recovery contributions were set based on each employer's or group of employers' underlying position using a recovery period appropriate to the employer or group.

Based on the employer contributions certified, it was expected that the funding position would have increased to approximately 89% by 31 March 2019 if experience since the previous valuation had been in line with the assumptions. The initial result at 31 March 2019 is a funding ratio of 103% (based on a probability of funding success of 80%).

Our understanding is that one of the metrics used by the Government Actuary's Department in its analysis of local funding plans under Section

13 of the Public Service Pensions Act is a comparison of the new recovery plan with the previous plan agreed at the last valuation. GAD has indicated that where funds are in deficit it would generally expect to see a retention of the previously agreed end date (rather than an extension or rolling recovery period), particularly where overall employer contributions are not increasing.

Whilst certain individual employers' sub-funds remain in deficit, at an aggregate level the Fund is in surplus. In line with the Fund's Funding Strategy Statement (FSS), we recommend the Administering Authority adopts a buffer in funding level to smooth future contribution changes for employers. This could be to ensure that only surplus above a funding level of 105% (the figure quoted in the FSS) is used to reduce the future service rate. The effect of this is shown in the table below.

	2019 result (80% PoFS)
Surplus Amortisation Period from 1 April 2020	% of pay
19 years (Surplus above 105% used to reduce funding level to 105%)	0.0%

The contributions in the above table are the whole of Fund theoretical secondary contributions allowing for different funding targets for different categories of employer where these have already been agreed (as set out in Appendix D). In practice, employers' secondary contributions will be set based on each employer's or group of employers' underlying position using a recovery period appropriate to the employer or group. Stepping of employer contributions may also be agreed. As a result, the aggregate secondary contributions actually certified will be different to those shown above and could be a mixture of reductions to the % of pay contributions for some employers (where in surplus with a funding ratio above 105%) and additional contributions (e.g. monetary amounts and/or increases to the % of pay contributions) for others (where in deficit).

Aggregate Employer Contributions

Based on the primary and secondary contributions set out in the previous sections, the aggregate required contributions across the Fund as a whole, are as set out below, alongside the results from the previous valuation.

Basis	Previous valuation	2019 result (80% PoFS)
Primary contribution rate (% of pay) pre McCloud / Cost Cap	17.7%	18.5%
Secondary (deficit) contributions used to restore 100% funding (19 years) - % of pay	5.1%	n/a
Total contributions (equivalent % of pay) pre McCloud / Cost Cap	22.8%	n/a
<i>Allowance for possible cost of McCloud / Cost Cap*</i>	n/a	n/a
Total contributions allowing for approximate possible cost of McCloud/Cost Cap	22.8%	n/a
Secondary contributions used to reduce the funding level to 105% (19 yrs) - % of pay	n/a	0.0%
Total contributions (equivalent % of pay) pre McCloud / Cost Cap	n/a	18.5%
<i>Allowance for possible cost of McCloud / Cost Cap*</i>	n/a	1.5%
Total contributions allowing for approximate possible cost of McCloud / Cost Cap	n/a	20.0%

* Within this figure, allowance has been made for amortising the assumed McCloud past service liability over 19 years.

The contributions in the above table are the whole of Fund employer contributions calculated allowing for different funding targets for different categories of employer where these have already been agreed. In practice employers' primary and secondary contributions will be set based on each employer or group of employers' underlying position using a recovery period appropriate to the employer or group. Stepping of employer contributions may also be agreed. As a result, the aggregate secondary contributions actually certified will be different to those shown above. Appendix D provides further information on which funding targets have been used for which employers.

The Administering Authority will need to confirm what allowance should be made for the potential additional liabilities for the McCloud case in determining employer contributions to the Fund. Please see Appendix E for more details.

Initial results for London Borough of Enfield

The initial 2019 valuation results, calculated using the proposed 2019 basis, for the London Borough of Enfield are as follows. The surplus amortisation period used in this illustration is 19 years with the target of reducing the funding ratio (where applicable) to 105%; in this case the funding ratio is under 105% and so no reduction for surplus is applied.

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	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%

Notes: The employer results above should not be shared with the London Borough of Enfield in its employer capacity. They are intended to provide an indication of the likely valuation results for the employer in question based on the data submitted by the Administering Authority (amended as agreed or advised) and assumptions set out in this paper, to assist the Administering Authority in finalising its funding strategy including the valuation assumptions. Even if there are no changes to the assumptions or data, the results for individual employers could still change:

- as we work through results for other employers, adjustments may be needed to the assets allocated to the above employers to ensure the sum of assets notionally allocated to employers equals the whole Fund assets
- we need to agree the allowance for McCloud/cost cap in employer contributions from 1 April 2020; and
- we need to agree how any surplus/deficit will be addressed, the deficit recovery period and any stepping of contribution changes which may apply.

If the Administering Authority wishes to provide the employer with an early indication of the potential results please let us know so we can provide results in an appropriate format and with the relevant context (we have developed individual employer results schedules together with a covering, explanatory note, for this purpose).

Risks and uncertainties, and developments since the valuation date

Risks

The Fund faces a number of key risks which could affect its funding position. These risks include:

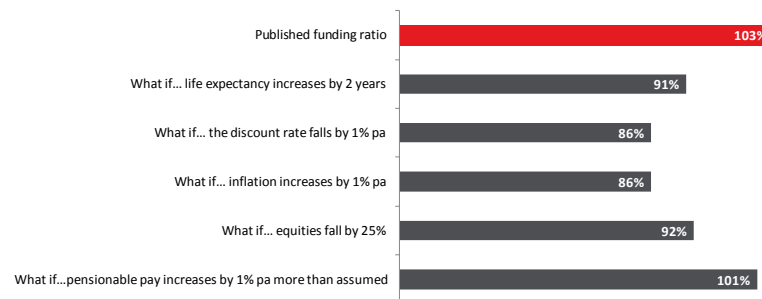
- Funding risk – the risk that the value placed on the liabilities is set too low and proves insufficient to meet the benefit payments as they fall due.
- Employer risk – the risk that an Employer is no longer able to meet its required contributions to the Fund*.
- Investment risks – the risk that investment returns are lower than allowed for in the valuation, and that investment returns and assets move out of line with the liabilities, so the funding position is not stable.
- Longevity risk – the risk that Fund members live for longer than assumed and that pensions would therefore need to be paid for longer resulting in a higher cost for the Fund.
- Inflation risk – the risk that inflation is higher than assumed, increasing the pensions that need to be paid.
- Options – the risk that members (or employers) exercise options resulting in unanticipated extra costs. For example, members could swap ("commute") less of their pension for cash than allowed for.

*The risk that an employer fails and is unable to meet its obligations to the Fund can be mitigated to some extent by adoption of different funding targets for different employers. Currently none of the Fund's liabilities relate to employers on a stronger funding target (higher liabilities) than adopted for the long-term, secure scheduled bodies. We can provide further details of how the funding position for individual employers compares to the exit position on request.

To quantify some of these risks, the chart below shows the approximate impact of the following one-off step changes on the Fund's funding position based on an 80% Probability of Funding Success (all other elements of the valuation basis being unchanged):

- Life expectancy at age 65 is two years longer than anticipated (with corresponding increases at other ages).
- A 1% pa fall in long term expected investment returns (the discount rate).
- A 1% pa increase in expected price inflation (measured by CPI).
- A 25% fall in the market value of equities (with no change in bond markets).

In practice, some of these changes may be partially offset by other changes in the values of the assets or the liabilities. For example, a reduction in the expected investment return or inflation might lead to a compensating change in asset values, or a change in asset values might lead to a compensating change in expected investment returns. These potential effects are not shown in the chart.



The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The primary contribution rate is also sensitive to a number of the above factors: falls in expected investment returns, rising inflation expectations and increases in life expectancy.

Uncertainties

McCloud/Sargeant Case

When the public service pension schemes were reformed with effect from 1 April 2015 (1 April 2014 for the LGPS in England and Wales), transitional protections were agreed for members who were closest to retirement.

In June 2019 the Government was denied leave to appeal following its loss of a Court of Appeal case (the 'McCloud/Sargeant' judgement) which found that the protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory.

Whilst the case related to firefighters and judges, on 15 July 2019 the Government issued a written statement confirming that as transitional protections were offered in all public service schemes, including the LGPS, then this will need to be remedied across all such schemes. This will lead to higher liabilities in the Fund as younger members who were discriminated against need to be compensated. However, while we know a remedy will need to be determined, the nature and extent of the remedy required may not be known for some time.

The Scheme Advisory Board of the LGPS in England and Wales has issued guidance for administering authorities in relation to McCloud suggesting that they discuss and agree with their actuary whether any allowance should be made for possible additional liabilities (assuming, as has turned out to be the case, that there is no certainty on regulatory changes by 31 August 2019).

We have previously raised this with the Administering Authority and approximate allowance has been made for the potential impact of the McCloud judgement on the liabilities and primary contribution rates figures in this paper as set out in Appendix E.

Cost management

The design of the new public service schemes with effect from 1 April 2015 (2014 for the LGPS in England and Wales) included a cost control mechanism which was intended to protect employers from rising pension costs due to demographic and other factors. This mechanism included both a floor and a cap on employer contributions and requires that if the cost, assessed by GAD in line with assumptions set by HM Treasury, is more than 2% of pay above or below a defined target, member contributions and/or benefits must be amended to bring the cost for employers back to the target level.

The LGPS in England and Wales has a separate, additional cost management process which considers total costs and may recommend action if the cost has changed. Most assumptions are the same as those adopted for the HM Treasury process but there are some differences. We believe that an informal arrangement is in place such that any changes agreed as part of the SAB cost management process could be allowed for in determining whether any action is required in relation to the HMT process.

The calculations undertaken by GAD suggested that the cost cap floor had been breached and action was required to bring the cost back up to the target level. Changes leading to an average increase in employer costs of 0.9% of pay had been agreed under the SAB process. It was expected that changes would be implemented with effect from 1 April 2019 once the HMT process had been run to confirm if any additional changes were needed.

However, following the Court of Appeal judgement in the McCloud case in December 2018 the cost cap process was paused. It is not yet clear what the effect on the liabilities will be, but we believe the outcome will be one or other of the following:

- The agreed remedy means the cost cap floor has no longer been breached (in which case the additional liabilities are simply those due under the McCloud remedy)
- Even after allowing for the agreed remedy the cost cap floor has still been breached (in which case the additional liabilities will be a combination of those due under the McCloud remedy and those that would be agreed under the re-started cost cap process)

It is not possible to predict what the remedy will be, noting that its effect on the liabilities will depend upon the nature of the remedy, to which members it applies and its duration.

The cost of the remedy is also particularly sensitive to the assumptions for real salary growth (including promotional salary increases), assumed rates of withdrawal and the ages of the affected members.

Further details of the calculations we have carried out in relation to the potential additional liabilities from the McCloud case are set out in Appendix E. The Administering Authority should be aware that in practice additional liabilities and hence cost will be very variable between employers and more accurate calculations may be required once the uncertainty is resolved.

Investment market developments since the valuation date

The investment return on the Fund for the quarter to 30 June 2019 was 3.9%. In addition, index returns suggest that investment returns on the fund from 30 June to 30 September would have been positive. Investment returns have been higher than the discount rate and on its own this will have improved the funding ratio.

As at 30 June 2019 (the latest quarter for which our Capital Market Assumptions are available), the key financial assumptions (if derived in a consistent way) are unchanged from the position at 31 March 2019.

Overall, for the fund as a whole, as at 30 June 2019 we would expect the funding level to be higher than that at 31 March 2019, and contributions (if derived in a consistent way) to be similar to those set out in this report.

Gilt yields have fallen by more than the fall in the discount rate for scheduled bodies and the yield adopted for exit valuations has recently been around 0.8% p.a., materially lower than at the valuation date. Therefore liabilities for employers subject to the orphan funding target (and other targets where the discount rate is linked to gilt yields) are likely to have increased more than for the Fund as a whole. Where indicative exit positions are being provided as at 31 March 2019, employers should be advised of the likely increase in exit liabilities since the valuation date.

The 2019 valuation report will show assumptions and reported valuation results as at 31 March 2019. However, the Administering Authority should consider whether employer contributions should be reviewed if market conditions deteriorate, particularly if contributions are being reduced.

If actual experience before the next actuarial valuation is in line with the assumptions in this report, and contributions are paid as recommended in this report, we expect the Fund's funding ratio to remain similar as at 31 March 2022 (the expected date of the next valuation).

Brexit

Following the EU Referendum in June 2016 the UK is currently scheduled to leave the EU on 31 January 2020. It is not yet clear what the terms of any withdrawal agreement will be, or even if there will be a withdrawal agreement.

It is possible that the investment outlook could be materially affected by the UK's withdrawal from the EU. We recommend that the Administering Authority considers in due course whether (and if so how) to build in any allowance for the effect of Brexit on future investment returns (and hence the discount rate) when determining employer contributions from 1 April 2020, particularly for the short-term or less secure employers.

Next steps

The next steps are to:

- Agree the final valuation basis to be adopted for the main scheduled bodies and, if different to that adopted for the results in this document, re-run the liability calculations accordingly
- Agree the maximum recovery period, including to which employers this will apply
- Agree the funding targets to adopt for non-scheduled body employers
- Agree what allowance should be made for McCloud and other uncertainties when setting employer contributions
- Make any amendments to the Funding Strategy Statement required and consult with affected parties
- Communicate the valuation results to employers
- Document the valuation process (including approving and publishing the Funding Strategy Statement, Rates and Adjustments Certificate and the formal actuarial valuation report)

Timetable

Our understanding of the timing of the next steps is as follows:

- Discuss this paper and agree initial funding target – 21 November meeting of the Pensions Policy and Investment Committee
- Agree contributions for London Borough of Enfield (to be confirmed at 21 November meeting of the Pensions Policy and Investment Committee)
- Present initial results (on agreed funding target) to employers at Employers' Meeting on 2 December
- Consultation on Funding Strategy Statement (date TBC)
- Finalise all employer results – November 2019 to January 2020
- Sign off valuation report and Rates and Adjustments Certificate – by 31 March 2020

The statutory deadline for completion of all steps in the valuation process is 31 March 2020.

Consider what you would like in relation to:

- Further calculations or advice on the funding target and/or surplus/deficit amortisation periods and any stepping of changes, for the council and other employers
- Additional funding targets for different employers/groups of employers
- Further advice on what allowance to make in employer contributions certified for the possible cost of the McCloud judgement
- Further advice on updating the Funding Strategy Statement

Appendix A – Membership data

The results in this report are based on membership data as at 31 March 2019 supplied to us by Andreas Andrea on 12 July 2019. A summary of the final data used is set out below.

Active members		Number	Average age	Total pensionable pay (£000 pa) 2014 definition	Total pre 2014 pension (£000 pa)	Total pre 2014 accrued lump sum (£000)	Total post 2014 pension (£000pa)
2016	Men	1,672	44.2	41,997	5,586	8,851	1,537
	Women	5,592	46.3	94,000	11,445	16,246	3,485
	Total	7,264	45.8	135,997	17,031	25,097	5,022
2019	Men	1,743	45.3	48,896	3,857	5,774	3,527
	Women	5,997	46.9	111,884	7,991	10,500	8,074
	Total	7,740	46.6	160,780	11,847	16,274	11,601

Notes: *The average ages are unweighted*

Pensionable pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers

Post 2014 pension figures include the April 2019 revaluation

Deferred members		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)	Total pre 2014 accrued lump sum (£000)
2016	Men	1,998	46.4	4,524	2,264	9,938
	Women	5,303	46.2	8,016	1,512	16,196
	Total	7,301	46.3	12,540	1,718	26,134
2019	Men	2,511	45.4	5,591	2,227	9,057
	Women	7,014	46.3	10,293	1,467	14,557
	Total	9,525	46.1	15,884	1,668	23,614

Notes: The deferred pension amounts shown above are at the valuation date and include the April 2019 revaluation.

Average ages are unweighted.

Included in the above are 3,127 (2016: 645) members who are yet to decide whether to take a refund of contributions.

Pensioners and dependants		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
2016	Men	1,530	72.1	14,138	9,241
	Women	2,724	71.0	12,941	4,751
	Dependants	696	73.5	2,011	2,889
	Total	4,950	71.7	29,090	5,877
2019	Men	1,681	72.4	16,472	9,799
	Women	3,384	71.1	17,189	5,079
	Dependants	752	71.9	2,277	3,028
	Total	5,817	71.5	35,938	6,178

Notes: The pension amounts shown above include the increase awarded in April of the appropriate year.

Average ages are unweighted.

Included in the above are 52 (2016: 40) members in receipt of a children's' pension.

We have conducted high level checks on the membership data provided and we are satisfied with its adequacy for the purpose of this actuarial valuation.

Appendix B – Assets

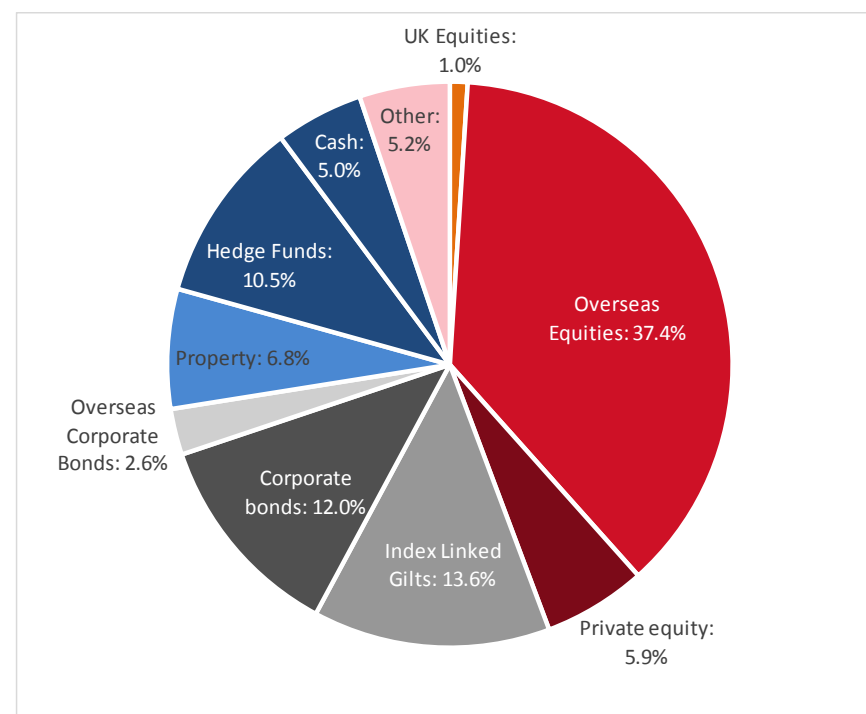
The asset figure used in this report has been calculated using draft accounts for the year ended 31 March 2019 as supplied by Andreas Andrea within the Valuation Information Model sent on 11 September 2019.

I have used an asset figure of £1,185.5M which is taken from the total net assets of the Fund from the draft accounts.

The final results of the valuation will be based on the audited accounts for the Fund. While we do not expect any material changes to the results when audited accounts are produced, the Administering Authority should bear in mind that such a possibility exists.

The chart on the right shows the approximate split of the Fund's assets between the different asset classes on the valuation date.

For the purpose of modelling the required probability of funding success and hence deriving the discount rate to be adopted for the secure scheduled bodies as at 31 March 2019 we have allowed for the target investment strategy as summarised in our paper titled “Actuarial valuation at 31 March 2019 – Assumptions Advice”.



Appendix C – Summary of assumptions used

Financial assumptions

Assumption	Previous valuation results	2019 result (80% PoFS)	Exit Basis
Main scheduled body funding target:			
Probability of funding success	69%	80%	Not Calculated
Discount rate	4.50%	4.20%	1.30%
Ongoing orphan funding target:			
In service discount rate	4.10%	3.30%	1.30%
Left service discount rate	2.50%	1.60%	1.30%
RPI inflation	3.10%	3.20%	3.20%
CPI inflation (pension increases / CARE revaluation)	2.00%	2.10%	2.10%
Post 88 GMP pension increases	1.80%	1.90%	1.90%
Pay inflation	3.50%	3.60%	n/a

Demographic assumptions

Assumption	Previous valuation results	Initial 2019 results	Alternative 2019 results	Exit Basis
Pre-retirement mortality assumption – base table Males Females	90% of SAPS S2PMA Light 90% of SAPS S2PFA Light		45% of S2PMA 20% of S2PFA	
Post-retirement mortality assumption – base table				
Actives retiring in normal health: Males Females	95% of S2PMA Light 80% of S2PFA Light		110% of S2PMA 110% of S2PFA	
Actives retiring in ill health: Males Females	80% of S2IMA 100% of S2IFA		110% of S2PMA 110% of S2PFA	
Contingents of current actives: Males Females	95% of S2PMA Light 80% of S2PFA Light		110% of S2PMA 105% of S2PFA	
Deferreds retiring in normal health: Males Females	95% of S2PMA Light 80% of S2PFA Light		105% of S2PMA 105% of S2PFA	
Deferreds retiring in ill health: Males Females	80% of S2IMA 100% of S2IFA		105% of S2PMA 105% of S2PFA	
Contingents of current deferreds: Males Females	95% of S2PMA Light 80% of S2PFA Light		105% of S2PMA 100% of S2PFA	
Pensioners retiring in normal health and current dependants: Males Females	95% of S2PMA Light 80% of S2PFA Light		95% of S2PMA 95% of S2PFA	

Assumption	Previous valuation results	Initial 2019 results	Alternative 2019 results	Exit Basis
Ill health pensioners: Males Females	80% of S2IMA 100% of S2IFA	95% of S2PMA 95% of S2PFA		
Contingents of current pensioners: Males Females	95% of S2PMA Light 80% of S2PFA Light	100% of S2PMA 95% of S2PFA		
Mortality assumption – future improvements	CMI 2014 core projections with long-term improvement rate of 1.5% p.a.	CMI 2018 core projections with long-term improvement rate of 1.50% p.a. s _k of 7.5 and parameter A of 0.0.		
Withdrawals	Allowance for withdrawals from service. On withdrawal, members are assumed to leave with a deferred pension in the Fund.	Allowance for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave with a deferred pension in the Fund.	n/a	
Promotional salary increases	Allowance for age-related promotional increases	Allowance for age-related promotional increases (see sample rates below).	n/a	
Ill-health early retirements	Allowance for retirements due to ill-health. Proportions into the different benefit tiers are: Tier 1 - 85% Tier 2 - 10% Tier 3 - 5%	Allowance for retirements due to ill-health (see sample rates below). Proportions into the different benefit tiers are: Tier 1 - 85% Tier 2 - 10% Tier 3 - 5%		
Commutation	Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.	Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.		

Assumption	Previous valuation results	Initial 2019 results	Alternative 2019 results	Exit Basis
Family details	<p>Each man is assumed to be three years older than his wife/partner.</p> <p>80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65.</p> <p>No allowance for children's pensions.</p>	<p>Each man is assumed to be three years older than his wife/partner.</p> <p>80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65.</p> <p>No allowance for children's pensions.</p>		
Take up of 50:50 scheme	All members are assumed to remain in the scheme they are in at the date of the valuation.	All members are assumed to remain in the scheme they are in at the date of the valuation.		n/a
Retirement age Group 1 and Group 2 members (fully and taper protected members) Group 3 members (Ro85 age = 60) Group 3 members (Ro85 age > 60) Group 4 members (Joiners pre 1 April 2014) Group 4 members (Joiners post 31 March 2014)	Rule of 85 age (Ro85 age) 65 65 65 State pension age		63 63 65 65 State pension age	
	Any part of a member's pension payable from a later age than the assumed retirement age will be reduced.			
Discretionary benefits	No allowance	No allowance	No allowance	No allowance

The table below illustrates the proposed allowance for withdrawals from service, ill-health retirement and promotional pay increases at sample ages.

Current age	Percentage promotional pay increase over year	Percentage leaving the Fund each year as a result of withdrawal from service	Percentage leaving the Fund each year as a result of ill-health retirement
20	5.97%	8.30%	0.00%
25	4.60%	7.40%	0.00%
30	2.44%	6.40%	0.01%
35	1.45%	5.50%	0.02%
40	1.35%	4.60%	0.03%
45	1.27%	3.70%	0.06%
50	0.00%	2.80%	0.16%
55	0.00%	1.80%	0.32%
60	0.00%	0.90%	0.63%
65	0.00%	0.00%	0.93%

Appendix D – Funding targets adopted

Funding targets used for each employer/group in our calculations.

Employer	Employer code(s)	Funding target
Adnan Jaffrey Trust	54	Scheduled Body/Subsumption
Ark John Keats Academy	38	Scheduled Body/Subsumption
Attigo Academy Trust	62	Scheduled Body/Subsumption
Aylward Academy	27	Scheduled Body/Subsumption
Birkin Services	30	Scheduled Body/Subsumption
Capel Manor College	9	Scheduled Body/Subsumption
Cedars Learning Trust	58	Scheduled Body/Subsumption
Cuckoo Hall Academies Trust	24, 33, 35, 36, 37	Scheduled Body/Subsumption
Edmonton County Academy	47	Scheduled Body/Subsumption
Elior UK	44	Scheduled Body/Subsumption
Enfield Grammar Academy	7	Scheduled Body/Subsumption
Enfield Learning Trust	48	Scheduled Body/Subsumption
Fusion Lifestyle	26	Scheduled Body/Subsumption
Independence and Wellbeing	49	Scheduled Body/Subsumption
Ivy Learning Trust	55	Scheduled Body/Subsumption
Jewish Community Academy Trust	64	Scheduled Body/Subsumption
Kingsmead School	29	Scheduled Body/Subsumption

Employer	Employer code(s)	Funding target
London Borough of Enfield	1, 2, 3, 4, 5, 6, 10, 11, 12, 13, 14, 15, 16, 18, 19, 22, 25, 31, 40, 41, 42, 43, 50, 51, 52, 53, 56, 57, 59, 60, 61, 63	Scheduled Body/Subsumption
Meridian Angel Primary School	39	Scheduled Body/Subsumption
Nightingale Academy	28	Scheduled Body/Subsumption
Norse Commercial Services	23	Scheduled Body/Subsumption
Oasis Community Learning	17, 21	Scheduled Body/Subsumption
Orphaned Employers	20	Scheduled Body/Subsumption
Outward Housing	34	Scheduled Body/Subsumption
Reed Momenta	45	Scheduled Body/Subsumption
Sodexo	32	Scheduled Body/Subsumption
Southgate College	8	Scheduled Body/Subsumption
Southgate School Academy	46	Scheduled Body/Subsumption

Appendix E – Allowance for uncertainties: McCloud/Cost Cap/GMP indexation

Background and calculations in respect of the allowance for McCloud/Cost Cap/GMP indexation and equalisation.

Background on McCloud

Following a review of public service pension schemes in 2011 by Lord Hutton (the [Hutton Report](#)) UK public service pension schemes were reformed with effect from 1 April 2015 (1 April 2014 for the LGPS in England and Wales), with the objective of reducing the overall cost to the taxpayer and putting schemes on a more sustainable footing.

The public service pension schemes were reformed through a process of consultation and negotiation with relevant stakeholders, with different outcomes emerging in each scheme. The reforms included later retirement ages (State Pension Age in most cases); benefits based on career average earnings (so no longer being linked to 'final pay' at retirement), and tiered member contribution rates. The reforms included transitional protections for those members who were closest to retirement. Whilst not part of the Hutton recommendations (whose report warned of age discrimination issues with protections based on age), transitional protections for members closest to retirement became [government policy](#) following consultation with the trade unions.

Protections applied to all active members of schemes who were within 10 years of their Normal Pension Age on 1 April 2012. Generally, this was implemented by allowing those members to retain membership of the 'pre-reformed' schemes, whilst all other members were moved into the new arrangements (for a number of the schemes this was subject to a "tapering" approach for members who were close to the 10-year cut-off).

In relation to the LGPS in England and Wales all members joined the new 2014 Scheme for membership after 1 April 2014, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits earned after 1 April 2014 would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the 2008 Scheme.

In December 2018 the Government lost a Court of Appeal case (the ['McCloud/Sargeant' judgement](#)) which found that the transitional protection arrangements, put in place when the firefighters' and judges' pension schemes were reformed, amounted to illegal age discrimination. This case joined together two similar cases; one in the case of 'McCloud vs the Lord Chancellor and the Ministry of Justice' where the Employment Tribunal had previously ruled against the Government on grounds of age discrimination in the Judges' Pension Schemes, and another in the case of 'Sergeant vs London Fire & Emergency Planning Authority' where the Employment Tribunal had previously ruled that the transitional protections in the Firefighters' Pension Schemes were lawful - a decision which was later overturned by the Employment Appeal Tribunal.

The Government applied to the Supreme Court for permission to appeal the Court of Appeal judgement, however this application was denied on 27 June 2019. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy, following appropriate consultation. Current expectations are this will not be known until mid-2020.

While the judgement was not in relation to the LGPS, the Government announced in a [Written Ministerial Statement](#) on 15 July 2019 "... as 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes". The remedy is likely to differ by scheme depending on the transitional protections adopted.

The Scheme Advisory Board of the LGPS in England and Wales has issued guidance for administering authorities in relation to McCloud suggesting that they discuss and agree with their actuary whether any allowance should be made for possible additional liabilities.

Cost management and McCloud

The design of the new public service schemes with effect from 1 April 2015 (2014 for the LGPS in England and Wales) included a cost control mechanism which was intended to protect employers from rising pension costs due to demographic and other factors. This mechanism included both a floor and a cap on employer contributions and requires that if the cost, assessed by GAD in line with assumptions set by HM Treasury, is more than 2% of pay above or below a defined target, member contributions and/or benefits must be amended to bring the cost for employers back to the target level.

The LGPS in England and Wales has a separate, additional cost management process which considers total costs and may recommend action if the cost has changed. Most assumptions are the same as those adopted for the HM Treasury process but there are some differences. We believe that an informal arrangement is in place such that any changes agreed as part of the SAB cost management process could be allowed for in determining whether any action is required in relation to the HMT process.

However, following the Court of Appeal judgement in the McCloud case in December 2018 the cost cap process was paused. It is not yet clear what the effect on the liabilities will be, but we believe the outcome will be one or other of the following:

- The agreed remedy means the cost cap floor has no longer been breached (in which case the additional liabilities are simply those due under the McCloud remedy)
- Even after allowing for the agreed remedy the cost cap floor has still been breached (in which case the additional liabilities will be a combination of those due under the McCloud remedy and those that would be agreed under the re-started cost cap process)

Any remedy, and hence change to the benefits of the LGPS, is uncertain, and may take years to be determined. However, any change is likely to increase the benefits payable from the scheme, and therefore the cost of the scheme.

Allowance for McCloud/Cost cap

Consideration therefore needs to be given as to what allowance should be made for increases in benefits, and how to calculate the potential (uncertain) impact.

Our view is that some allowance needs to be made for the potential increase in benefits, and that as a minimum this should be an increase of 0.9% of pay in the employer contribution rate (the average increase to employer costs that had been expected to apply under the cost management process if no McCloud remedy had been required).

We have based our proposed allowance on the cost of extending the underpin to all pre 2014 members. This does not go as far as GAD's "worst case scenario" calculations for the purposes of accounting which included post 2014 joiners.

However, it is also arguably cautious, as the actual remedy may be restricted to fewer members than we have allowed for (e.g. only those who joined pre 2012 but of any age, although there is an argument that 2012 was an arbitrary date and is part of the age discrimination), or the remedy may be time limited, or indeed the remedy may not take the form of extending the underpin but may be some other form of compensation for those members deemed to be affected. The cost is particularly sensitive to the real salary increase assumption (and to a lesser extent the withdrawal assumption) which has previously been advised on for funding purposes and not for the purpose of estimating the possible cost of the McCloud judgement.

We have calculated the approximate cost at a whole of fund level, and based on the scheduled body funding assumptions, of extending the final salary underpin to all members who were active members as at 1 April 2014, assuming that the underpin continues to apply only to members' benefits on retirement (i.e. not on withdrawal from service before retirement, and not to the benefits of spouses or dependants).

In an email of 4 September 2019, the Administering Authority provisionally agreed to have regard to the full amount of the calculated cost as described above. We have allowed for this agreed amount in this paper in respect of possible costs in respect of McCloud.

For individual employer calculations, we have allowed for the same adjustment to employer contributions as calculated for the Fund as a whole.

GMP indexation and equalisation

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension between 6 April 1978 and 5 April 1997. The rate at which GMP was accrued, and the date it is payable, is different for men and women, meaning there is an inequality for male and female members who have GMP. This was a consequence of the State Pension itself being unequal at the time.

Prior to 6 April 2016 the LGPS was not required to pay any pension increases on GMPs accrued before April 1988 and was only required to pay limited increases on GMPs accrued after 1988 (CPI inflation capped at 3% p.a.). In return, the Additional Pension (AP) element of the State Pension included top-up payments to pensioners to give inflation protection on the GMP element where this was not provided by the LGPS.

However, reforms were made to the State Pension system in April 2016 which scrapped AP and therefore removed the facility for central government to fully index the combined pension through AP.

In March 2016 the government introduced an 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 December 2018 to ensure members continued to receive full inflationary increases on their combined public service scheme and State pensions. This was allowed for in the 2016 valuation of the Fund.

In January 2018 the interim solution was extended to individuals reaching SPA on or before 5 April 2021. Further, the Government has indicated that it is committed to continuing to compensate all members of public service pension schemes reaching SPA after 5 April 2021.

The Government's view is that this solution (including its ongoing commitment to compensate members reaching SPA after 5 April 2021) will meet equalisation requirements.

On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs". HM Treasury have, however, gone on record since the Lloyds judgement to say, "Public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement."

Allowance for GMP indexation

From approximate calculations carried out at the previous valuation, at a whole of fund level the impact of providing full pension increases on GMPs due to the extension of the interim solution and for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of around 0.3%.

The results in this report allow for the extension of the interim solution to those reaching State Pension Age by 5 April 2021 as already required under legislation. However, they do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021.

Report framework

This report has been prepared in accordance with the framework below.

TAS compliant

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that the Administering Authority of the London Borough of Enfield Pension Fund is the addressee and the only user and that the report is only to be used for the purpose of considering the actuarial method and assumptions for the valuation and possible employer contribution requirements arising from the valuation. If you intend to make any other decisions after reviewing this report, please let us know and we will consider what further information we need to provide to help you make those decisions.

The report has been prepared under the terms of the Client Services Agreement between the Administering Authority and Aon Hewitt Limited on the understanding that it is solely for the benefit of the addressee.

This report should be read in conjunction with:

- The document titled "Actuarial valuation at 31 March 2019 – Terms of Reference", dated 21 February 2019 (the Valuation Terms of Reference).
- Valuation Guidance document
- Longevity analysis using Demographic Horizons™ dated 7 March 2019
- Experience analysis and advice on demographic assumptions dated 8 March 2019
- CMAs at 31 March 2019
- The document titled "Actuarial valuation at 31 March 2019 – Assumptions Advice" dated 3 June 2019 (the Assumptions Advice)
- [Documentation of agreed data changes]

If you require further copies of any of these documents, please let us know.

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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 2019.

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’s 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 employer². 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

¹ See Regulation 62(5)

² See Regulation 62(7)

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 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 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 is 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	<p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Commission regular funding updates for the Fund as a whole, on an approximate basis.</i></p> <p><i>Analyse progress at three yearly valuations for all employers.</i></p> <p><i>Inter-valuation roll-forward of liabilities between formal valuations.</i></p>
Systematic risk with the possibility of interlinked and simultaneous financial market volatility	<p><i>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.</i></p>
Insufficient funds to meet liabilities as they fall due	<p><i>Commission regular funding updates for the Fund as a whole, on an approximate basis. Analyse progress at three yearly actuarial valuations.</i></p>
Inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon	<p><i>Regular review of advisers in line with national procurement frameworks</i></p>
Counterparty failure	<p><i>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.</i></p>
Inappropriate long-term investment strategy	<p><i>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.</i></p>

Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<i>Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.</i>
Active investment manager under-performance relative to benchmark	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i>
Pay and price inflation significantly more than anticipated	<i>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.</i>
Effect of possible increase in employers' contribution rate on service delivery and admission/scheduled bodies	<i>Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.</i>

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.	<p><i>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.</i></p> <p><i>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.</i></p>

5.4 Liquidity and maturity Risk

Risk	Summary of Control Mechanisms
<p>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.</p>	<p><i>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).</i></p> <p><i>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.</i></p>
<p>There is also a risk of employers ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p><i>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.</i></p>

5.5 Liability Risk

Risk	Summary of Control Mechanisms
<p>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.</p>	<p><i>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.</i></p> <p><i>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.</i></p>

5.6 Regulatory and compliance risk

Risk	Summary of Control Mechanisms
<p>The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.</p>	<p><i>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.</i></p> <p><i>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.</i></p>

5.7 Recovery Period

Risk	Summary of Control Mechanisms
<p>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.</p>	<p><i>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.</i></p>

5.8 Stepping

Risk	Summary of Control Mechanisms
<p>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.</p>	<p><i>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.</i></p>

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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London Borough of Enfield

UPDATE TO	Local Pension Board 23rd January 2020
SUBJECT	Briefing Update – Pension Administration Performance and Update
LEAD OFFICER	Tim O’Connor – Pension Manager
Date	03.01.2020

1. RECOMMENDATIONS – ITEM NO

1.1 To note the contents of this update.

2. EXECUTIVE SUMMARY

2.1 The purpose of this report is to provide an update to the board on progress on on-going development work and team news.

3. BACKGROUND
General updates

3.1 Next Audit begins February 2020.

Work completion

3.2 The table below shows work completed by the Pension Team in the first three quarters of the current financial year.

3.3 The reference to ‘Other work’ covers all other areas of work such as member scheme opt outs, retirement estimates, divorce estimates, etc. These could be reported on separately if required by the Board.

3.4 Overall work outstanding reduced from 1/1/2019 to 31/12/2020 by **35.5%**

2019/20

Description	Q1	Q2	Q3
Deaths	37	19	36
Retirements	72	88	106
Deferred benefits	384	340	322
Leaver*	309	94	275
Transfer Ins	26	24	22
Transfer out	14	9	43
Divorce	0	0	0
Starters	139	81	147
Sub Total >>>	981	655	951
All other work	1421	1572	2283
Total quarter	2402	2227	3234

* (less than 2 yrs)

Description	Q1	Q2	Q3*
% completed in timescales >>>	77.94%	74.18%	87.21%

*Q3 is the highest % of completed work since stats were recorded, January 2017.

Tim O'Connor, Pensions Manager

3 January 2020

MUNICIPAL YEAR 2019/2020 REPORT NO.**MEETING TITLE AND DATE:**

Local Pension Board
23rd January 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:	Item:
Subject: Enfield of Pension Fund Procedure for Recording and Reporting Breaches Policy	
Wards: All	
Key Decision No:	
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 Pension Board is recommended to:

- i) note the contents of this report and the attached Appendix 1;
- ii) note the Enfield Pension Fund Procedure for Recording and Reporting Breaches (at Appendix 2) as it relates to the Pension Board.

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

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 duty¹²⁶ 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 functions¹²⁷.

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 managers¹²⁸
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers¹²⁹: 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 advisers¹³⁰ 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 scheme¹³¹.

243. The report must be made in writing as soon as reasonably practicable¹³². 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. Schemes¹³³ 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

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:

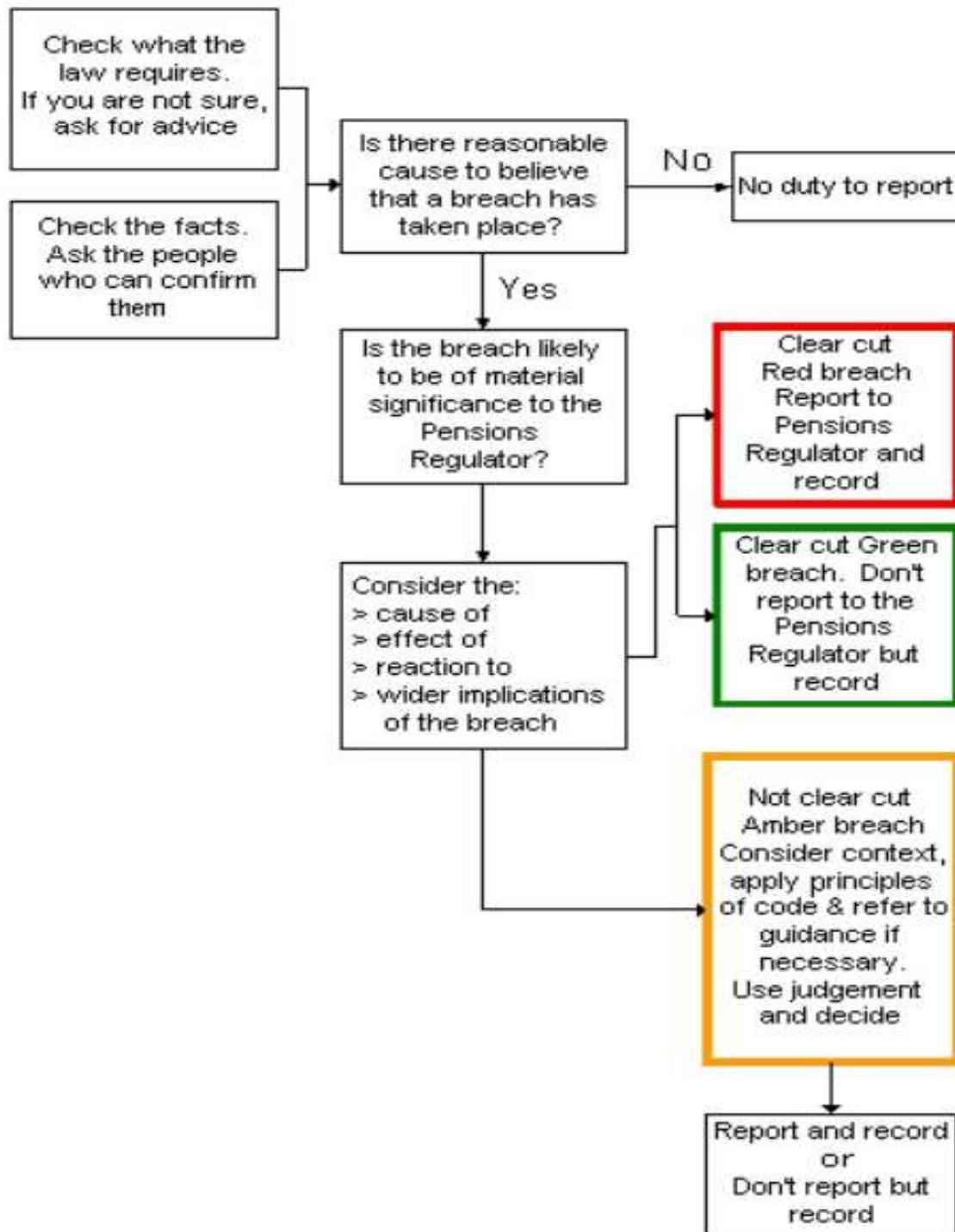
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

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.

Decision-tree: deciding whether to report



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.

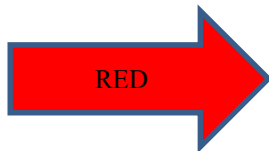
The wider implications of the breach

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:



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

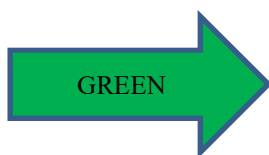
These must be reported to The Pensions Regulator.

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.



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.



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>

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

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Appendix 2

London Borough of Enfield Pension Fund Draft Conflict of Interest 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

CONFLICTS OF INTEREST POLICY

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Enfield Pension Fund, which is managed by London Borough of Enfield. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Enfield Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pension Policy & Investment Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- **Understand and monitor risk**
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pension Policy & Investment Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the management of London Borough of Enfield Pension Fund, the Chief Finance Officer (Section 151 Officer), Executive Director, Directors, and the Service Heads (from here on in collectively referred to as the senior officers of the Fund).

The Pension Manager/Pension Investment & Treasury Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he/she considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pension Policy & Investment Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

Local Government Act 2000

All members and co-opted members of the Enfield Pension Policy & Investment Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

Code 14: Governance and administration of public service pension schemes

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. The Code of Practice No 14, is issued by The Pensions Regulator ('the regulator'), the body that regulates occupational and personal pension schemes provided through employers. Codes of practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions.

Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account

The Public Services Ombudsman for Wales' Ten Guiding Principles

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

CODE OF CONDUCT & CONFLICT OF INTEREST POLICY

1. Code of conduct

- 1.1 As members of a publicly funded body with a responsibility to discharge public business, members of the Enfield Pension Board should have the highest standards of conduct.
- 1.2 Pension Board members should have regard to the Seven Principles of Public life:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership
- 1.3 All Enfield Pension Board members must:
 - Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.
 - Not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- Make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.
- Co-operate fully with whatever scrutiny is appropriate to your role.
- Not, without proper authority, reveal any confidential and sensitive information that is provided to you, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation.
- Ensure when using or authorising the use by others of the resources of the authority that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.
- Promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.
- Sign the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.
- Comply with the Enfield Pension Fund Code in addition to all other existing Codes of Conduct or Protocols (e.g. The Member Code of Conduct).

2. Conflict of interest

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

2.2 A conflict of interest exists where a decision on a matter might reasonably be regarded as affecting (to a greater extent than other persons who may be affected by the decision) the well-being or financial position of the Councillor, a relative or a friend or

- the employment or business carried out by those persons, or in which they might be investors (above a certain level),
- any of the bodies with which the decision maker is associated, and which decision maker will have registered in the appropriate register of interests.

It does not need to be shown that a conflict of interest actually exists. It is sufficient if it appears to a fair and informed observer that there was a real possibility of conflict.

2.3 Examples of potential conflicts of interest, not only for the Board but also for all those involved in managing the Pension Fund, are listed at appendix A.

2.4 All prospective Pension Board members are required to complete the Enfield Pension Fund Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix B.

2.5 All appointments to the Pension Board should be kept under review by the Corporate Director, Resources.

2.5 It is the duty of any appointed Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Pension Board in the first instance or to the Scheme Manager and recorded in a register of interests.

2.7 The Pension Board shall identify and monitor any potential conflict of interests in a register of interests (attached at appendix C). The register of interests should be circulated to the Enfield Pension Board and Scheme Manager for review and publication.

2.8 If the Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board, the Enfield Pension Board must consider obtaining legal advice when

assessing its course of action and response. The Enfield Pension Board should consult the Monitoring Officer or the Service Head, Legal Services in the first instance.

- 2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.
3. **Operational procedure for officers, Pension Policy & Investment Committee members and Pension Board members**
- 3.1 The following procedures must be followed by all individuals to whom this policy applies.

What is required	How this will be done
<i>Step 1 - Initial identification of interests which do or could give rise to a conflict</i>	<p>On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix B. This is in addition to the requirement to register disclosable pecuniary interests and other registerable interests.</p> <p>The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix C.</p>
<i>Step 2 - Ongoing notification and management of potential or actual conflicts of interest</i>	<p>At the commencement of any Pension Policy & Investment Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Governance Officer to the Chairman of every meeting prior to that meeting.</p> <p>At the start of the Pension Policy & Investment Committee meetings there will also, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda.</p> <p>Any individual, who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Governance Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Officers, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.</p> <p>If such a conflict is identified outside of a meeting the notification must be made to the Governance Officer and where it relates to the business of any meeting, also to the Chairman of that meeting. The Officers, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.</p> <p>Where information relating to any potential or actual conflict has been provided, the Pensions & Treasury Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts.</p> <p>Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.</p>
<i>Step 3 - Periodic review of potential and actual conflicts</i>	<p>At least once every 12 months, the Officers will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix B) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Officers to all individuals to whom it relates.</p>

4. Operational procedure for advisers

- 4.1 All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with London Borough of Enfield.
- 4.2 Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:
- be provided with a copy of this Policy on appointment and whenever it is updated
 - adhere to the principles of this Policy
 - provide, on request, information to the Pensions & Treasury Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to London Borough of Enfield
 - notify the Pensions & Treasury Manager immediately should a potential or actual conflict of interest arise.
- 4.3 All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.
- 4.4 London Borough of Enfield will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.
- 4.5 London Borough of Enfield will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.
- 4.6 Ways in which conflicts of interest may be managed include:
- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
 - the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pension Policy & Investment Committee meeting)
 - a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

4.7 Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, London Borough of Enfield shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

4.8 *Minor Gifts*

For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £10 per item and an overall maximum value of £20 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pension Policy & Investment Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the London Borough of Enfield Members' Code of Conduct.

5. Monitoring and Reporting

5.1 The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Governance Officer for the Fund. In addition, it will be published in the annual report and accounts

5.2 In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

6. Key Risks

6.1 The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pension & Treasury Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters

- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

7. Costs

- 7.1 All costs related to the operation and implementation of this Policy will be met directly by Enfield Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

8. Approval, Review and Consultation

- 8.1 This Conflicts of Interest Policy is to be approved using delegated responsibilities on 27 February 2020. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Bola Tobun,
Pensions & Treasury Manager,
London Borough of Enfield
E-mail - Bola.Tobun@enfield.gov.uk
Telephone – 020 8379 6879

Examples of Potential Conflicts of Interest

- a) An elected member on the Pension Policy & Investment Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.
- b) A member of the Pension Policy & Investment Committee is on the board of a Fund Manager that the Committee is considering appointing.
- c) An officer of the Fund or member of the Pension Policy & Investment Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.
- d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.
- e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Policy & Investment Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Policy & Investment Committee item.
- g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Policy & Investment Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.
- h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Policy & Investment Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.
- i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts 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 he or she only acts in the interests of their union and union membership, rather than all scheme members.
- j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.
- k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Policy & Investment Committee or Local Pension Board. He or she has to consider whether to share this information 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.

Appendix B

Declaration of Interests relating to the management of Enfield Pension Fund administered by London Borough of Enfield

I, [insert full name]

am:

Tick as appropriate

- an officer involved in the management
- Pension Policy & Investment Committee Member
- Pension Board Member

of Enfield Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Enfield Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the Enfield Pension Fund Conflicts of Interest Policy. I undertake to notify the Pension & Treasury Manager of any changes in the information set out above.

Signed _____ Date _____

Name (CAPITAL LETTERS) _____

Appendix C

Enfield Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by London Borough of Enfield, the Administering Authority.

Date Identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified (1)	Action taken (2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc.

(2) E.g. withdrawing from a decision making process, left meeting

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

www.enfield.gov.uk

MUNICIPAL YEAR 2019/2020 REPORT NO.**MEETING TITLE AND DATE:**

Local Pension Board
23rd January 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:	Item:
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 Pension Board is recommended to:

- i) note the contents of this report and the attached Appendix 1;
- ii) note 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 Local Pension Board 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 will be provided with individual declarations for completion at the 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.

MUNICIPAL YEAR 2019/2020 REPORT NO.**MEETING TITLE AND DATE:**

Local Pension Board
23rd January 2020

REPORT OF:

Executive Director of Resources
Contact officer and telephone number:

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Agenda – Part:	Item:
Subject: Review of 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 2020/21 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.

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.
- 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), the Pensions and Lifetime Savings Association (PLSA), 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 with the Board, 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 are 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 2020/21

- 3.32. The following training programme is proposed for 2020/21

Date	Event and Core Knowledge & Skills Areas Covered	Potential Attendees
July - September	Fund Managers Training and Seminars <ul style="list-style-type: none"> ▪ Pensions legislative & governance context ▪ Pensions Accounting and Audit Standards ▪ Investment performance 	All
October - December	Officers / Pension Fund Actuary & Investment Consultant training sessions <ul style="list-style-type: none"> ▪ 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 <ul style="list-style-type: none"> ▪ 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.
- 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

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: <ul style="list-style-type: none"> • 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	

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 21ST NOVEMBER, 2019

MEMBERS: Councillors Tim Leaver, Yasemin Brett, Doug Taylor and Terence Neville OBE JP

Officers:

Finance Manager (Pensions and Treasury) and Head of Corporate Finance

Also Attending: Daniel Carpenter (AON), Jo Peach (AON) , Jonathan Teasdale (AON)

1. WELCOME AND INTRODUCTION (1 MINUTE)

The Chair welcomed everyone to the meeting and introductions were made.

Apologies for absence were received from Councillors Ergun Eren, Claire Stewart and Matt Bowmer (Director of Finance).

2. DECLARATION OF INTERESTS (4 MINUTES)

Councillor Tim Leaver declared a non-pecuniary interest as a director of Housing Gateway.

Councillor Yasemin Brett declared a non-pecuniary interest as she family members working in the pensions industry.

Councillor Terry Neville declared a non-pecuniary interest as a member of the Westminster Council Pension Board and with a family member as Director of a Hedge Fund.

The Chair expressed that in future, these should be standing declaration of interests and he would then ask if there are any changes to these.

3. MINUTES OF THE PREVIOUS MEETING HELD ON 5 SEPTEMBER 2019 (5 MINUTES)

The minutes of the meeting held on 5 September 2019 were agreed as a correct record with regards to the following:

- Item 3 (Standing Items) had several Risk Register amendments which have now been completed.
- The LCIV issue to be discussed later on the agenda.
- The committee to attempt to have a brief training session before each meeting. The committee to assess its own training needs. Councillor

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Claire Stewart would be involved in establishing training needs. Councillor Neville to schedule a meeting with Gareth Robinson regarding accessing Westminster training schedule.

4. INITIAL 2019 TRIENNIAL VALUATION RESULTS (15 MINUTES)

The Committee received a report on the Initial 2019 Triennial Valuation Results and Funding Strategy Statement (Report No:144).

NOTED

1. The report presented the Triennial Valuation results, as detailed at the executive summary (page 325) of the report.
2. The committee were asked to consider and agree the initial results of the 2019 triennial actuarial valuation and strategy statement.
3. If agreed, officers would circulate the Funding Strategy Statement (FSS) to the participating employers who have until the end of the consultation to respond, by 2 December 2019. Any received comments from the employers would be brought back to the committee for consideration before it is approved.
4. The initial valuation result was good news with a 103% compared to the last valuation whereby there was a deficit of £131.9m. The pension fund is now in a surplus of £39.3m this year.
5. The aggregate employer contribution is 20% which includes 1.5% McCloud allowance.
6. The committee to focus on the 80% rate, which is the AON recommended position and to formally note the FSS.
7. There was concern that employers would have some difficulty with the data for individual employees which would vary from employer to employer. The committee could benefit from some audit work in advance of this requirement, due to some information sitting on old systems, would be difficult to find, if found at all.
8. The underlying employers would need to be engaged as they will all have different histories, records and recollections. The committee need to ensure that a provision is made for these discussions and preparation.
Internal discussions with AON would be needed to look at the issue of missing data.
9. AON clarified what SCAPE calibrator was about (item 3.14, page 329).
10. The Chair thanked AON for the work done over the past 3 years, which has left the pension fund in a strong position.

AGREED that

1. The committee recognises the report and appendix.
2. The circulation of the FSS.
3. The committee follow up with the employers and ensure that members are pragmatic and practical for the additional information that may be required.

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5. STANDING ITEMS (15 MINUTES)

The Committee received the report (Report N: 149) of the Director of Finance on five standing items as follows:

a. Risk Management Policy and Register

NOTED

1. The entire contents of the risk register would need to be scrutinised on an annual basis.
2. The risk register itself did not have any new risks added to it. It was being presented to the committee with the amendments and suggestions from the last meeting.
3. Page 36 of the report under the PEN 08 risk, pensioner officer has been used and should be pension officer.
4. Officers would like the committee to approve the policy so that they are able to start adding the Risk Management policy to the Annual Report.
5. The risk register is comprehensive enough to pick up environmental change. It has been covered explicitly on page 37 of the report.

AGREED to approve the register subject to the above changes.

b. Training and Policy Register

NOTED

1. A training Policy is being introduced to the committee for their consideration, debate and any amendments that need to be included. A CIPFA technical knowledge and skills framework for training analysis has been included in the agenda from pages 64 – 67. If the training policy is approved, it will then be circulated to each member of the Pension Board and Pension Committee for review regarding their training needs.
2. It was agreed at the last meeting that members identify their training needs and that early in the new year, a policy and training programme would be produced for members. This item to be tabled and heard again in February 2020, after review by members. The vice-chair to have oversight of training needs.
3. The Committee to review the Training Policy at the next meeting and Members training needs.

AGREED that

- i. The committee note the training Policy as a draft document.
- ii. The Pension Board considers the Policy and whether appropriate for them.

c. LCIV (London Collective Investment Vehicle)

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1. Members attention was drawn to a questionnaire that officers had been asked to complete, as detailed at page 9 of the 'to follow' agenda. The questionnaire is the London CIV Governance Framework 2019 Review. The deadline to complete the questionnaire is 30 November 2019 and officers had started to collate information for the committee to review and contribute to. This would be a matter for officers to complete if they have time, otherwise more time would be required or less questions.
2. As detailed at para 3.6 – 3.12 (pages 2 – 3 of the 'To Follow Agenda') the London CIV staff pension scheme & remuneration policy review. This paper had been heard at the last committee meeting advising the committee to sign the Pensions Pre-Charge agreement and the Pensions Guarantee agreement. The committee could not make this decision to sign and could only note this. The Chair/members are not authorised to sign an unlimited liability guarantee, recommend a cap be established and would be seeking legal advice over whether it is appropriate as a 3rd party pension fund.

AGREED

- i. To note the contents of the report and the minutes of the last meeting in terms of the committee's approach to the LCIV:
 - The committee were uncomfortable and concerned over the governance arrangements and the ability of the trustees to hold LCIV to account.
 - The committee agreed not to commit any further investments into the CIV until the concerns of the committee were addressed.
 - The committee were also looking to arranging a meeting with LCIV.
- ii. To report the reservations of the committee to the LCIV.
- iii. To refer the matter to the Council's legal department regarding the authority to sign an unlimited liability guarantee.

d. Local Government Pension Scheme Update**NOTED**

1. As detailed at Paragraph 3. (page 72) of the report regarding the CMA (Competition and Market's Authority) order on fiduciary management and investment consultants.
2. It had now become an order for every LGPS to have objectives set for Investment Consultants before 10 December 2019 deadline.
3. Appendix 3 (pages 89-91) of the report details draft objectives, which could still be changed, but meets the deadline.
4. As detailed at paragraph 3.13 (pages 73-74) of the report, regarding the Pensions Regulators LGPS Engagement report. The Pensions Admin team have confirmed that they now have a new system in

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place that will help them provide good data for the actuary going forward.

AGREED to note the recommendations of the report, as detailed at paragraph 2 (page 71) of the report.

e. Employer Late Payments

NOTED

1. This is a supplement of the agenda at page 47 of the report.
2. There were only 9 late payments in the last financial quarter and the rest were on time.
3. The council has a statutory obligation regarding the payment of pension funds and there is a time line for payments which will be met.

6. QUARTERLY PERFORMANCE REPORT - 30 SEPTEMBER 2019 (10 MINUTES)

To receive a report from the Director of Finance on the Quarterly Investment Report for September 2019.

NOTED

1. As detailed at page 123 (Executive Summary) of the report.
2. There had been an increase of £41m to the fund at the end of September 2019.
3. For this quarter, eight out of 21 mandates had underperformed in the last 12 months. The committee would need to consider what to do with Lansdowne and York Capital, going forward.
4. The committee questioned whether the council were in the right asset, as regards Lansdowne and York Capital. Was there a problem with the long-term future of those assets or if there were problems with the managers for those assets.
5. AON believed that the two managers (Lansdowne & York Capital) longer term performance had been better than short term performance. The LCIV London Emerging Market Equity Fund investments were previously with Janice Henderson. The lead fund manager and all the team had left Janice Henderson. JP Morgan have now been appointed as the new manager for that fund in early October 2019. Property manager, Brockton, had experienced strong performance and as a result have been able to recycle a lot of capital within their investments and don't need to draw extra capital from the fund as an investor.
6. The fund performed slightly better than the benchmark for the quarter and for up to 1 year it was up by 1.7% and by the end of the quarter it was sitting on £46.9m because of some capital falls.
7. There was a debate about too much volume in reports for the committee to get through and provide a view on. There needed to be a review around this.
8. The committee agreed that there needs to be a review regarding the detail and reporting coming to the committee. The committee needs to

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discharge its responsibilities and ensure that there is a forum to acknowledge success and address issues.

AGREED to note the report.

7. PIRC - ANNUAL REVIEW OF LOCAL AUTHORITY PENSION FUND PERFORMANCE ANALYTICS (15 MINUTES)

Neil Sellstrom (PIRC - Pensions & Investments Research Consultants) introduced the item. Performance data is collected from across the LGPS and currently have 64 funds and £193bn in our 'Universe'. The presentation slides reflect what has happened in that universe and how that compares to Enfield and vice versa. Information is up to 31 March 2019 and is information and comment rather than advice. PIRC only highlight trends and is very much a strategic overview and how we compare to our peers.

1. Presentation

The Committee received a presentation from Neil Sellstrom (PIRC).

The presentation included information on the following:

Universe Results

- 2018/19 Results
- What did well.
- What did less well.
- Universe Performance
- Performance Relative to Benchmark
- Asset Allocation
- Longer Term Performance
- Longer Term Performance
- Asset Allocation Changes Over Time

Enfield Pension Fund Results

- Fund Structure
- Performance Relative to Benchmark
- Performance Relative to Peers
- Fund Performance
- Risk and Return – Last Ten Years
- Risk and Return – Last Five Years

Appendix 1 – London Fund Results

- Fund Returns and Rankings
- Risk and Return – Last Ten Years
- Risk and Return – Last Five Years

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Appendix 2 – Diversification

- Diversification = Complexity
- Too Much Diversification?
- Complexity Brings Challenges
- How could Pooling Assist?

2. Questions/Comments from Councillors

- 2.1 The committee should debate what is the genuine down side of complexities compared with the genuine benefit of diversification.
- 2.2 The Council's strategy had met its objectives with a lower exposure to risk as opposed to those authorities with a higher exposure to equity.
- 2.3 This was a useful, clear and informative paper which provided a wider picture of how Enfield's strategy has delivered results.

8. ENFIELD PENSION FUND ANNUAL REPORT FOR 2018/19 (15 MINUTES)

The Committee received the Pension Fund Annual Report and Accounts 2018/19.

The report was introduced by Bola Tobun (Finance Manager – Pensions and Treasury).

1. As detailed at pages 399 – 405 of the report.
2. The 2018/19 Pension Fund Accounts were completed in September 2019 and will be signed off by BDO (external auditors) and the Section 151 officer when the main council accounts for 2018/19 are signed off.
3. Finance would be talking to BDO for next years sign off of the PF accounts as they can be divided from the main council accounts.

AGREED to note the report and approve the Annual Report for 2018/19 once the Pension Fund Accounts are signed off.

9. ENFIELD PENSION FUND APPROACH TO ESG (5 MINUTES)

Received a verbal update on the Enfield Pension Fund Approach to ESG (Environmental Social and Governance).

1. An undertaking was given at the last committee meeting that officers would follow a workshop to develop the pension fund approach to environmental, social and governance issues, where it relates to the council's investment strategy.
2. A useful workshop has taken place and the committee are considering their position as regards the principles that that workshop and the committee's responsibility requires.
3. Officers anticipate feeding back to the committee in February 2020 with an update, which will also begin to have an impact on the council's overall investment strategy.

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10. PROCUREMENT (10 MINUTES)

The Committee received a report from the Executive Director of Resources on the Local Government pension system and support contract award. (Report No:148)

NOTED

1. This report was to advise the committee that the administrative system procurement has been completed and that the Pension software and support contract has been awarded to Aguila Heywood Ltd.
2. The additional procurement that has been lined up, is for an Investment Consultant and an Independent advisor for the pension fund.
3. Members requested that they have input into any appointment for an Investment Consultant and Independent Advisor and input into the terms of reference that procurement are to follow in this process.
4. Bola Tobun (Finance Manager) to circulate dates to members regarding involvement with the process for the independent advisor including dates for the investment consultant appointment.

AGREED

To note the contents of the report.

The meeting ended at Time Not Specified.