



THE LONDON BOROUGH
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DATE: 21 April 2021

To: Members of the

PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Keith Onslow (Chairman)

Councillor Gareth Allatt (Vice-Chairman)

Councillors Simon Fawthrop, Simon Jeal, David Jefferys, Christopher Marlow and Gary Stevens

Members of the Local Pension Board are also invited to attend this meeting

A meeting of the Pensions Investment Sub-Committee will be held on **THURSDAY**
29 APRIL 2021 AT 6.30 PM

PLEASE NOTE: This is a 'virtual meeting' and members of the press and public can see and hear the Sub-Committee by visiting the following page on the Council's website: –

<https://www.bromley.gov.uk/councilmeetingslive>

Live streaming will commence shortly before the meeting starts.

MARK BOWEN

Director of Corporate Services

Copies of the documents referred to below can be obtained from
<http://cds.bromley.gov.uk/>

A G E N D A

- 1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**
- 2 DECLARATIONS OF INTEREST**
- 3 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

In accordance with the Council's Constitution, questions that are not specific to reports on the agenda must have been received in writing 10 working days before the date of the meeting – before 5pm on Thursday 15th April 2021.

Questions specifically relating to reports on the agenda should be received within two working days of the normal publication date of the agenda. Please ensure that questions specifically on reports on the agenda are received by the Democratic Services Team by **5pm on Friday 23 April 2021.**

- 4 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 27 JANUARY 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 10)
- 5 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**
- 6 **UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 1)**
- 7 **PENSION FUND PERFORMANCE Q4, 2020/21** (Pages 11 - 28)
- 8 **FUND MANAGER - MFS**
- 9 **FUND MANAGER - FIDELITY**
- 10 **GOVERNANCE REVIEW OF THE LGPS** (Pages 29 - 68)
- 11 **LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000**

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

	<u>Items of Business</u>	<u>Schedule 12A Description</u>
12	CONFIRMATION OF EXEMPT MINUTES - 27 JANUARY 2021 (Pages 69 - 70)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13	UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 6.30 pm on 27 January 2021

Present:

Councillor Keith Onslow (Chairman)
Councillor Gareth Allatt (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys,
Christopher Marlow and Gary Stevens

Also Present:

John Arthur, MJ Hudson Allenbridge

100 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

101 DECLARATIONS OF INTEREST

There were no declarations on interest.

102 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received.

103 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 1 DECEMBER 2020, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 1st December 2020 (excluding exempt information) be confirmed.

104 PENSION FUND PERFORMANCE Q3 2020/21 Report FSD20100

The Sub-Committee received a report providing a summary of the investment performance of Bromley's Pension Fund in the 3rd quarter of 2020/21. Further detail on investment performance was provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge, at Appendix 5. The report also contained information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

The Chairman invited John Arthur of MJ Hudson Allenbridge to summarise his report. His report had been written before final performance data was available, but it was clear that it had been a good quarter with the Fund outperforming against the benchmark by 2.17% and reaching £1.313bn. The

three main factors were the strong performance of the Baillie Gifford Global Alpha Fund (which provided about half of the added performance), being overweight in equities, the best performing asset class, and the straight line increases of the multi asset income funds.

The Fund was 4.6% overweight in equities at the end of 2019 and underweight in other classes. The re-allocation towards added value property had now started and about \$70-80m would be drawn down over the next four years, with roughly \$5m a quarter going out to Morgan Stanley. It was important that this was managed, and he recommended holding an element of cash, probably \$10m, for this purpose. As the Fund would be gently selling equities to finance the move into international property, he proposed, to keep the fund stable, that some profits when equities outperformed were banked into the multi asset income fund. This would control risk while there was a cash outflow from the Fund. He suggested that if multi asset income dropped below 18% of the Fund at quarter end then equity should be moved across.

There had been a steady improvement in the equity portfolios, despite the drop in March 2020. In terms of cash-flow, the Fund remained roughly in balance. He viewed March 2020 as a liquidity crisis, with central banks stepping in with massive quantitative easing which stopped further deterioration. There had then been a hope phase followed by a solvency phase, when the long-term effects of the covid crisis on the economy were being assessed.

The UK had performed poorly over the quarter compared to the US market which was more tech-heavy. In terms of the global outlook, the massive build up in debt (UK Government borrowing had reached £280bn) would lead to inflation and a volatile return on assets over the year. With personal spending across the world depressed by the crisis, as the vaccines were rolled out he expected an urge to spend and a rapid recovery later in the year. The question would be whether this would lead to inflation. In the medium term, he suggested that the recovery would be as transitory as the crisis caused by the pandemic, and high government debt would reduce economic growth.

In terms of the individual fund managers' reports, Baillie Gifford's performance continued to be exceptional. MFS performance was slightly behind the index for the quarter, and they had not caught up since the initial impact of the pandemic in Q2. The Fidelity Fixed Interest portfolios both outperformed their indexes, and the two multi-asset income funds performed well in a rising market. Schroders had a higher target of cash plus five, with more equities, whereas Fidelity were cash plus four. The assumed ten year returns for gilts and index linked gilts were surprisingly poor with relatively high levels of volatility, supporting the Sub-Committee's move away from gilts to investment-grade. The Fidelity Property Fund was going through a number of refurbishments, and Mr Arthur suggested calling in the fund manager to discuss this. The fund could be positioned well, but this depended on their success with renting out these redeveloped properties.

The Sub-Committee discussed Mr Arthur's recommendations. Members supported the idea of holding cash available for the draw-downs for the Morgan Stanley fund, but Cllr Fawthrop argued that this should come from fixed income funds, not from equities. Other members argued that they should not re-visit the decision to reduce equity allocation.

The Chairman asked for an update on the cash-flow position – problems had been anticipated at the last but one revaluation, but this appeared to have been largely overcome. Mr Arthur responded that officers would have a better view on this, but he understood that the multi-asset income fund and the UK commercial property fund were producing enough income to cover the cash outflow, but it would be necessary to top up the multi-asset portfolio periodically.

Asked whether it was realistic that property funds were still expecting to achieve high rental income from office property, Mr Arthur commented that fund managers were surprisingly confident that specific markets and assets in refurbished office space would provide a premium, and he would welcome the opportunity to question their assumptions. The Chairman reported that MFS were due to attend the next meeting, and some Members proposed inviting Fidelity to talk about their UK Property Fund as well. A motion to invite both was defeated, but the Chairman stated that he would consider this with the Vice-Chairman and officers in the light of the overall agenda.

A Member asked about re-investing surplus funds. The Director of Finance reported that there was a surplus of around £6.1m to be re-invested in the current year, and multi-asset income funds had made a positive impact on cash-flow. John Arthur commented that he understood that the Baillie Gifford equity fund, MFS and the two Fidelity fixed interest funds did not pay out income and money was naturally re-invested, but the multi asset income funds and the UK property fund did. This currently covered net outflow on benefit payments with some spare. He expected the Morgan Stanley fund to scoop up any surplus funds over the next few years.

Cllr Fawthrop commented that the Sub-Committee should decide the guiding principles for this, and requested a report to the next meeting.

John Carnegie and Tim Gooding from Baillie Gifford attended the meeting to give a presentation on the Global Alpha fund, which had risen in value to over the £585m shown on the slide. They were continuing to invest in the future by recruiting thirteen graduate trainees, and had opened a Shanghai research office. Charles Plowden, who had been involved in managing Bromley funds since 1999, was due to retire shortly, and would be replaced by Helen Xiong. The target was to outperform by 2-3% per annum over the long term, and they had exceeded this since moving into global equity in 2013. In 2020, the fund had outperformed by about 20%, with a huge acceleration in trends that the fund was exposed to – particularly the success of technology companies and the movement towards online.

Tim Gooding commented on the fund's Tesla holding. The company was continuing to grow its car, autonomous driving software and stationary energy storage businesses and with strong governance now in place was likely to continue to provide exceptional performance. The Fund's holdings in Tesla had been reduced three times to maintain the balance of the Fund, but Baillie Gifford's view was that this remained a technology-led company likely to continue to grow.

In terms of the overall balance of the Fund, with the success of technology stocks there was now a weighting towards Growth Stalwarts and Rapid Growth, and they were looking for opportunities in Cyclical Growth and Latent Growth to re-balance – this was particularly with companies in difficult markets which were poised to exploit the current opportunities. There was a growing taxation and regulatory threat for digital businesses, and Baillie Gifford carried out annual tax audits across the portfolio and was actively engaging with companies that were pursuing inequitable policies aimed at artificially reducing their tax bills – to be sustainable in the longer term these businesses need to have a good relationship with their customers and stakeholders. Although the move online had fuelled enormous growth it was important to distinguish between growth pulled forward from future years, and real long-term potential. Baillie Gifford was now looking for opportunities in sectors such as education and healthcare. Finally, he explained that the Global Alpha Paris-Aligned portfolio had now been launched, partly in response to demand from LGPS clients for an ultra-low carbon scheme.

In response to questions, Mr Gooding explained that they tried to keep abreast of technological changes and opportunities by judging the correct themes and directions, and the potential winners, rather than trying to be too accurate about detail. The focus was on research and talking to experts and academics about long-term trends, rather than on broker's notes on short term performance.

Asked about SpaceX, Mr Carnegie explained that this was a private company and likely to remain so. In terms of changes in US energy policy, their focus was on longer term trends rather than the political atmosphere. The issues surrounding China's persecution of Uighur people in Xinjiang were difficult to respond to, but he emphasised that there were no blameless companies, and the aim was to support and encourage good practice and progress. Tim Gooding added that the small number of private Chinese companies they invested in tended not to be government owned, and it was companies like these that had driven three quarters of the rapid growth in China over the past forty years. The Chairman suggested that there was a potential contradiction with technology companies so dependent on precious metals for their batteries which allegedly were sometimes mined by slave or child labour. John Carnegie commented that Tesla were trying to develop their own infrastructure to have a greater influence on their supply chain. Paris-aligned funds were intended to reduce carbon emissions, and this was central to Tesla's activities. He added that companies chastened by being involved in difficult issues were more likely to improve their environmental and social policies in future. Members also mentioned Chinese activities in Hong Kong,

and investment in the South African company Naspers, although it was explained that Naspers was mainly owned by a Chinese company and its headquarters was in the Netherlands.

Mr Gooding confirmed that in his view AI and accumulation of data would be critical, particularly in fields such as healthcare. Baillie Gifford were seeking to invest in companies that could strip costs from systems and use data effectively. They were also looking at leisure to similarly identify the companies well-placed to profit from long term trends.

Asked whether projections for Tesla's growth in Chinese markets were realistic, and what the implications of the Chinese/American rivalry were, Mr Carnegie agreed that Chinese/American relations were likely to be strained for a long time. The key was to pick winners both inside and outside China, and Tesla was in a good position to exploit Chinese priorities for electric vehicles and exploiting solar energy.

Tim Gooding confirmed that only seven stocks had been excluded from the Paris-aligned Fund; three companies were automatically excluded in view of their role in exploiting fossil fuels, but with other companies the broad issue was whether they were making a positive contribution to the climate issues or were part of the problem. The Paris-aligned Fund had exactly the same target as the core Fund, and as the overlap of funds was high there was not expected to be a material difference in performance between the two models.

Asked about the biggest risk to financial markets at the moment, Mr Carnegie emphasised that Baillie Gifford were looking to find the companies that would be flexible enough to cope with challenges, and well-placed to recover from the current problems. The company felt that its greatest risk was not having the talent to perform its job - this was why the largest number of graduate trainees in the company's history had just been recruited.

The chairman thanked Baillie Gifford for their service to Bromley and John Carnegie and John Gooding for attending the meeting; he also asked them to pass on the Sub-Committee's best wishes to Charles Plowden for his retirement.

RESOLVED

(1) That the report be noted.

(2) That the Fund holds 6 months forecast drawdown into the Morgan Stanley International Property Fund as cash (approximately \$10m); to rebalance the Fund from Equities into Multi-Asset Income if the Multi-Asset Income weight in the Fund is more than 2% below the SAA benchmark (i.e. 18%).

(Councillor Simon Fawthrop requested that his contrary vote be recorded.)

105 MEMBER SELF-SERVICE AND I-CONNECT (PART 1)
Report FSD21009

The Sub-Committee received a report providing information about the forthcoming implementation of the Member Self-service portal and i-Connect, the data management portal. It was confirmed that normal communications with scheme members were continuing outside the system, and the proposals in the report were to implement an updated solution from the existing contractor after elements of the system had been turned off at Bromley's request in August 2019 due to security concerns. It was confirmed that the self-service portal would hold scheme documentation and allow scheme members to make inquiries about their entitlements, automating manual processes for maintaining and changing personal information.

Some Councillors questioned whether the costs should exceed the savings from automation, and asked whether there had been a procurement exercise. It was explained that this was an extension of the existing contract so the Council was restricted to using this one solution for the remainder of the contract until 2023, unless it was prepared to re-configure the whole IT system overlay. The proposal would future-proof interactions with scheme members and also assist with the changes to regulations expected in the next few years.

RESOLVED that the proposed changes to the contract for the Pension System with Aquila Heywood, the impact these changes will have on fund administration for the Council and the pricing details included in the part 2 report based on the package of implementing both Member Self-service and i-Connect, be noted and supported.

**106 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE
LOCAL GOVERNMENT (ACCESS TO INFORMATION)
(VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION
ACT 2000**

RESOLVED that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

**The following summaries
refer to matters
involving exempt information**

**107 CONFIRMATION OF EXEMPT MINUTES - 1ST DECEMBER
2020**

The exempt minutes of the meeting held on 1st December 2020 were confirmed, subject to a minor correction.

108 MEMBER SELF-SERVICE AND I-CONNECT (PART 2)

See minute 105.

**109 UPDATES FROM THE CHAIRMAN/DIRECTOR OF
FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)**

The Chairman and Director of Finance updated Members on a number of issues affecting the Pension Fund.

The Meeting ended at 9.30 pm

Chairman

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Report No.
FSD21026

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: Pensions Investment Sub-Committee

Date: April 29th 2021

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PENSION FUND PERFORMANCE Q4 2020/21

Contact Officer: Katherine Ball, Principal Accountant
Tel: 020 8313 4792 E-mail: katherine.ball@bromley.gov.uk

Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1** This report provides a summary of the investment performance of Bromley's Pension Fund in the final quarter of 2020/21. More detail on investment performance is provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge, which is attached as Appendix 1.

2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

- (a) note the contents of the report;**

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £44.6m expenditure (pensions, lump sums, etc); £49.8m income (contributions, investment income, etc); £1,330m total fund market value at 31st March 2021
 5. Source of funding: Contributions to Pension Fund
-

Staff

1. Number of staff (current and additional): 0.4 FTE
 2. If from existing staff resources, number of staff hours: c 14 hours per week
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,411 current employees; 5,669 pensioners; 6,120 deferred pensioners as at 31st December 2020
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Fund Value

- 3.1.1 The market value of the Fund ended the March quarter at £1,330.0m, up from £1,313.0m as at 31st December. The comparable value as at 31st March was £1,000.3m.

3.2 Performance Targets and Investment Strategy

- 3.2.1 Historically, the Fund's investment strategy was broadly based on a high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines, and, a comprehensive review of the Fund's investment strategy in 2012 confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.
- 3.2.2 The asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash flow shortfall in future years, and a revised strategy was agreed on 5th April 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.
- 3.2.3 At the meetings on 21st November and 14th December 2017 the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI fund mandates and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018 and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed by this Sub-Committee at its meeting held on 15th May 2019.
- 3.2.4 The asset allocation strategy was reviewed again during 2019/20, and a revised strategy has been finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5%).

3.3 Summary of Fund Performance

3.3.1 Performance data for 2020/21 (short-term)

A report on performance in the quarter ended 31st March 2021 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 1.

4. POLICY IMPLICATIONS

- 4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established

categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

- 5.1.1 Details of the final outturn for the 2020/21 Pension Fund Revenue Account will be provided at the next Pensions Committee meeting.

6. LEGAL IMPLICATIONS

- 6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended). The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	



London Borough of Bromley

Quarterly Report

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Performance Summary

Markets continued to improve during the first quarter of 2021 driven by successful vaccination rollouts in a number of countries and the expectations of a rapid economic recovery as lockdowns are eventually eased, whilst, at the same time, worrying over two distinct fears: firstly, a resurgence of the Covid-19 pandemic lead by a new strain which may be immune to the current crop of vaccines and, secondly, and more structurally, the outlook for inflation. It is the concern over inflation which will set the tone of market behaviour over the next few years and into the longer term. UK Government Bond yields rose (prices fell) across all developed markets at the fastest rate for over 20 years during the first quarter and are now back towards pre COVID-19 levels. In the UK, 10-year Government Gilt yields rose from 0.2% at the start of the quarter to 0.85% by the end of March. Gilt yields are still below the levels of March 2019, the time of the last actuarial valuation and so will still have a negative impact on the Fund's funding level but my expectation is for UK Gilt yields to rise further over the next 12 months and, as such, this should be supporting of the funding level by the next actuarial revaluation in March 2022.

Total Fund Performance

I have not received the quarterly report from your custodians at the time of writing.

Based on the information supplied by your officers, I believe the Fund rose by 1.6% over the quarter to a value of £1.334bn. This figure is a total of the figures provided by your asset managers and not the custodian and is therefore liable to change. I estimate that the Fund underperformed the Strategic Asset Allocation (SAA) Benchmark by approximately 0.5% - 0.8% over the quarter. This was driven mainly by the underperformance of the Baillie Gifford High Alpha Global Equity portfolio, balanced by outperformance by the MFS global equity portfolio and by the Fund's overweight exposure to Equities. The Baillie Gifford Global Alpha Portfolio has outperformed substantially over the last 12 months.

Asset Allocation

With equity markets continuing to rise over the quarter and bonds falling, the Fund's tactical asset allocation has deviated further from the SAA Benchmark.

In the short term, the expectation of a strong recovery in earnings is pushing equities higher whilst also pushing bond yields up (prices down) which acts as a headwind on equity valuations. Market sentiment is at stretched levels suggesting investors are becoming over committed and the economic recovery increasingly priced in.

Asset class	Asset Allocation as at 31/12/2019	SAA as at 31/12/2019	Position against the existing SAA	Asset Allocation as at 31/3/2021	New SAA going forward	Position against the new SAA
Equities	64.6%	60%	+4.6%	66.7%	57.5%	+9.2%
Fixed Interest	12.7%	15%	-2.3%	11.6%	12.5%	-0.9%
Property	4.2%	5%	-0.8%	3.5%	5%	-1.5%
Multi-Asset Income	18.5%	20%	-1.5%	18.2%	20%	-1.8%
Int'l Property	n/a	n/a	N/a	0%	5%	-5.0%

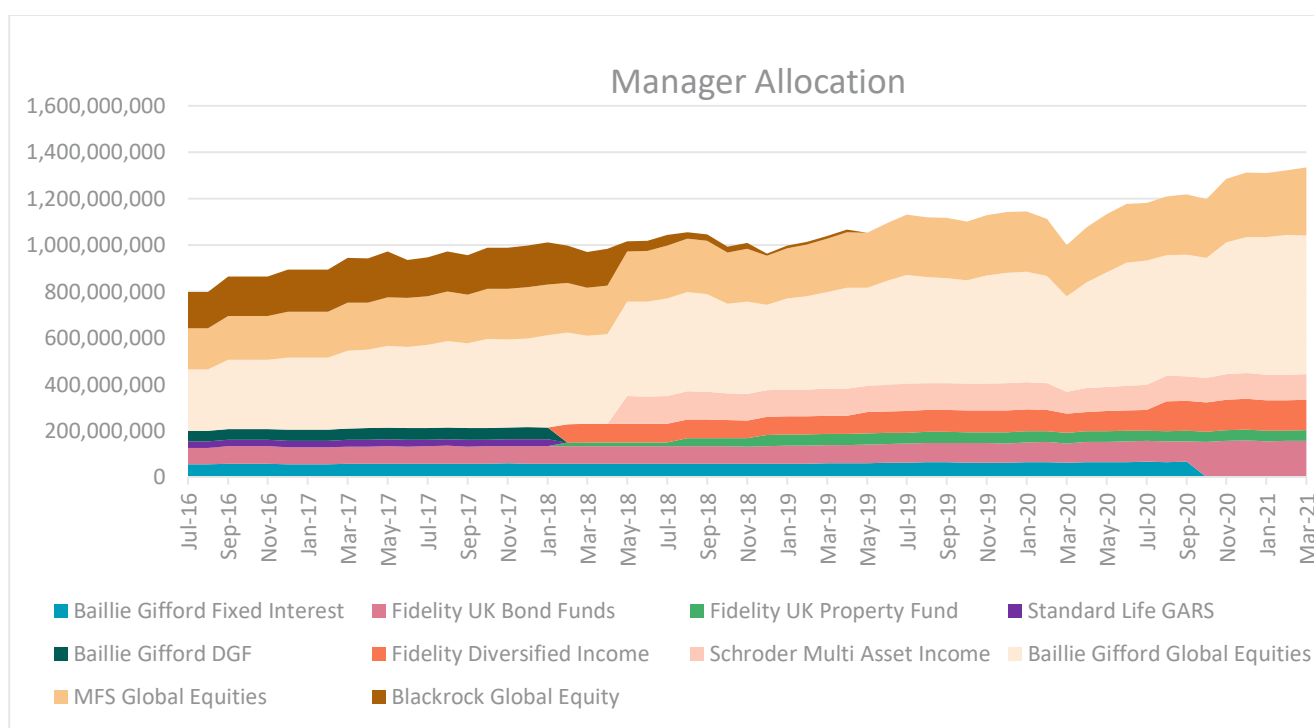
Figures may not add up due to rounding

The Fidelity UK Property manager is presenting to the Committee at this meeting. The Fund is underweight this portfolio against its SAA by 1.5% (see table above). This property portfolio currently has a number of unlet properties on which it receives no income at present, these account for close to 20% of the value of the portfolio. The majority of this relates to 4 properties currently undergoing refurbishment of which 3 were planned pre COVID-19. The manager presentation will give the committee the opportunity to question progress to reletting these assets and hopefully give some comfort on the ability of this portfolio to create value for the Fund going forward.

Recommendation 1: To Discuss whether to add £20m to the UK Property Portfolio to bring its weighting back into line with the SAA. The money to come from the Fund's equity managers.

Recommendation 2: To allocate an additional £20m to the Fund's Multi Asset Income portfolios to bring their weighting back to the SAA. The money to come from the Fund's equity managers.

The chart below shows the Fund's assets by manager/mandate



The switch from the Baillie Gifford Fixed Interest portfolio to the Fidelity UK Corporate portfolio was completed at the end of the third quarter 2020.

Because the Fund's investment return has surpassed the level assumed by the actuarial discount rate at the 2019 actuarial revaluation (3.65%), the funding level should have improved, all else being equal. Of course, everything else has not stayed

constant and the Fund's liabilities will have increased slightly due to the McCloud judgement and a number of other legislative issues. In addition, falling yields on UK Government Gilts may also have affected the actuaries' calculation of the discount rate. These calculations are for the Fund as an open, on-going Defined Benefit Scheme. If the Scheme was to close, less risk could be taken within the investment portfolios and the discount rate would be lower.

Cash Flow

Currently, the Fund can cover pension and lump sum payments as well as its manager fees and admin costs from pension contributions and the investment income received. Investment income is reinvested within the Global Equity and Fixed Income portfolios and paid out from the Multi-Asset Income and UK Property portfolios.

My understanding from discussions with your officers is that the Fund should end this financial year (2020/21) with around £8m in cash and currently has a positive cash flow of around £2m per annum being the net figure of pension contributions and income taken from the Multi-Asset Income and UK Property portfolios set against pension payments and administration costs. I will confirm this figure with your officers when the accounts for the financial year end are completed.

The commitment to International Property via the Morgan Stanley fund has now been signed and US\$80m will be drawn down over the next 4 years. The committed capital is an absolute US Dollar cash figure and will not alter even if the value of the Fund falls. It is important not to become a forced seller of assets as the drawdowns into this fund are made. Due to this I would suggest keeping enough cash in the portfolio to finance six months forecast drawdowns into the new fund.

Recommendation 3: To hold 6 months forecast drawdown into the Morgan Stanley International Property Fund as cash (approx. \$10m/£7m). This currently requires no action but will be monitored quarterly in my report going forward.

Long Term Capital Market (LTCM) Assumptions

The Strategic Asset Allocation Review conducted by MJHudson in 2019 used Long Term Capital Market Assumptions (LTCM) to calculate the potential risk and return balance of the Fund and the Strategic Benchmark.

LTCM assumptions cover both the expected long-term (10-year plus) return forecast and a calculation of the historic volatility and correlation across asset classes. Many investment managers and consultants produce LTCM assumptions, I have found those produced by JP Morgan to be the most detailed and consistent over time.

The table below shows JP Morgan's LTCM forecasts from December 2019, which were used in the Fund's SAA Review and the most recent version to give an indication of what has changed. It is difficult to include multi-asset portfolios such as Multi-Asset Income in this as the manager can alter the asset allocation across asset classes.

Asset Class	LTCM 2020 Forecast	LTCM Feb 2021 Forecast	Direction	Correlation with Global Equities
UK Inflation	2.0%	2.0%		0.03%
UK Cash	1.8%	1.1%	↓	-0.10%
UK Gilts	0.0%	-0.2%	↓	0.00%
UK Investment Grade	2.0%	1.9%	↓	0.42%
UK FTSE All Share	6.3%	6.8%	↑	0.89%
MSCI World Equity	5.0%	4.3%	↓	1.00%
Private Equity	7.3%	7.0%	↓	0.68%
UK Real Estate	5.5%	5.9%	↑	0.32%
Global Infrastructure	4.5%	5.3%	↑	0.17%
Private Debt	5.5%	6.0%	↑	0.16%
Gold	1.5%	2.1%	↑	-0.06%

JP Morgan tend to assume an element of mean reversion in valuations over time, this is particularly evident in the Equity forecasts where the heavy weighting of US Equities in the Global Equity line and the high current valuation of this market leads to a low future return forecast.

The table above reaffirms the results of the SAA Review and the new Strategic Benchmark agreed by the Pensions Committee in 2020. Return expectations for UK Gilts and Global Equities are falling whilst forecast returns from Infrastructure, Property, Private Equity and Private Debt are rising.

The long-term return forecast for the Total Fund level was 4.6% per annum at the time of the 2019 review. Because of the Fund's heavy exposure to Global Equities and Fixed Interest, this may have fallen towards 4.2% per annum but will still be above the Actuarial Discount rate of 3.9% per annum.

Environmental, Social and Governance

During the quarter the Fund received documentation from both of their two equity managers relating to the Shareholder Rights Directive II (SRD II) which came into effect in mid-2019. SRD II requires EU and UK institutional investors and asset managers to make certain disclosures relating to shareholder engagement and stewardship activities.

To comply with the requirements of SRD II, both managers disclosed: (i) their engagement policy (which can be found on their website); (ii) annual guidance on how our policy has been implemented (with further details available in their quarterly Stewardship Reports); and (iii) an annual report for institutional investors (the "Annual Report").

The Annual Report details items such as key medium-to-long term risks, portfolio composition, turnover and turnover costs, and is aimed at encouraging a long-term approach to investing, an approach which the Fund considers to be a core tenet of its investment philosophy as it seeks to allocate capital responsibly on behalf of its clients.

In addition, we continue to receive updates on engagement from both managers in their quarterly reports and both are looking to comply with the requirements of the Taskforce for Climate related Financial Disclosure (TCFD) which will come into force for the Fund in 2022. It is intended to provide training to Committee Members and Officers on this element during the coming year.

Executive Summary

- The main opposing themes of the last quarter continued to dominate market sentiment in the first quarter of 2021, namely, a concern over a resurgence in COVID-19 cases set against the optimism that the vaccine rollout globally will bring a rapid economic recovery. The resurgence of COVID-19 cases has led to renewed restrictions in some countries, whilst the vaccine rollout out across the developed world continues, albeit unevenly.
- In the US, following the Georgia Senate run-offs, the Democrats now have de facto control of the Senate. Along with the Democrat President and Congress, this provides scope for the implementation of Democrat policies, as seen with the US\$1.9 trillion stimulus package (which, at 6% GDP, represents around twice the assumed negative shock caused by COVID-19). This resulted in some fears of overheating the US economy: government bond yields jumped for most developed markets, with bond prices falling (yields rising) significantly, spurring an equity rotation in the favour of value stocks. Oil and copper prices continued to rebound due to increased demand.
- GDP growth estimates for both the UK (-2.6%) and EU (-1.2%) are negative for the first quarter of 2021 and a contraction is also expected in Japan (-1.2%) following a renewed state of emergency. The US (+2.5%) is forecast to have positive growth. While Asian nations have maintained low COVID-19 caseloads over the quarter and high levels of economic normality, the speed of the vaccine rollout in the UK and US is expected to provide tailwinds going into Q2. New lockdown restrictions being implemented in mainland Europe due to a "third wave" are expected to limit growth in the short-term. However, overall expectations of an economic rebound in 2021 have increased - S&P Global have revised their forecast of 2021 global GDP growth up from +5.0% to +5.5%.¹
- **It is worth highlighting the following themes, impacting investment markets:**

¹ S&P Global "Global Economic Outlook Q2 2021: The Recovery Gains Traction as Unevenness Abounds", March 2021.

- **Policy is expected to remain loose (with the balance shifting from monetary to fiscal support):** Despite the recent rise in government bond yields (see below), central banks have generally recommitted to keeping interest rates near historic lows. Likewise, governments continue to pursue supportive policies, such as a US\$1.9 trillion stimulus package in the US, along with a proposed US\$2.25 trillion infrastructure plan; the UK 2021 budget was broadly supportive in the short-term; and the EU recovery fund continues to progress towards implementation.
- **An accelerating but uneven recovery:** Differential rates of COVID vaccination and differing amounts of government fiscal stimulus are likely to make the recovery uneven across regions, with the US and Chinese economies in the lead, the UK leading Europe and challenges for some emerging economies (notably in LATAM).
- **Inflation continues to be a concern:** As the prospects of an economic recovery combine with central banks acceptance for higher inflation levels as the cost for such as recovery, markets continue to be wary of potential rising inflation and economies overheating. Whilst central banks are currently committed to low interest rates, investors may have less appetite than previously for low yielding government bonds, especially during a post-COVID-19 recovery.
- **Growth to Value style rotation:** Within equity markets, expectation of rising rates, rising inflation and a recovery in GDP led 'Value' as a style outperformed 'Growth' by 9.5% over Q1, reversing a long trend in the opposite direction. While the market may now have discounted the short-term uptick in inflation caused by year-on-year comparisons, it probably has not yet fully discounted a longer-term increase (20-year UK inflation expectations have only increased by 0.25% year-to-date).
- **Falling bond prices help with the search for yield and Pension Fund funding ratios:** The increase in government bond yields in Q1 (+65 bps for 10-year UK Gilts) has taken yields back to pre-COVID levels in the UK and US. However for local government pension schemes (LGPS) approaching a triennial valuation in 2022, it is worth remembering that UK yields are still some 30 bps below their level at the last valuation in March 2019.
- Global equities had a strong Q1 overall, although gains were not as substantial as those observed over Q4 2020. Vaccine rollouts; the US fiscal stimulus package and a rebound in global demand supported equities throughout the quarter, with the more economically sensitive sectors leading the way. Equity markets performed well in Q1 and all regions delivered solid returns, with the MSCI World up +5.0%. Volatility, measured by the VIX index, fell -15% over the quarter, from 22.8 to 19.4.
 - US equities, measured by the S&P 500, gained +6.2% over Q1, supported by the approval of the stimulus package. Expectations of social normality in the latter half of the year is expected to lead to an earnings recovery for companies hit hardest by the pandemic, which has helped Value sectors such as industrials, energy and financials to outperform this quarter.
 - 'Growth' stocks underperformed in Q1, with valuations in sectors such as technology and healthcare being impacted heavily by rising yields. Bond yields are often used as the discount rate for future earnings. Growth company valuations are based on long-term earnings growth and so are very sensitive to changes in this discount rate. In contrast, value company valuations tend to be based more on shorter-term earnings. In addition, value sectors tend to be those that benefit from cyclical economic recovery. The MSCI World Growth index gained only +0.3% over the quarter, compared to the +9.8% of the MSCI World Value index.
 - While UK equities lagged other developed markets, both the FTSE 100 (+5.0%) and FTSE All-share (+5.2%) indices delivered positive returns. Value stocks, such as financials, which make up a large proportion of the FTSE 100, performed strongly.
 - The Euro Stoxx 50, performed strongest over Q1, returning +10.8%. Attractive valuations and the approval of a coronavirus recovery plan outweighed concerns surrounding the slow vaccine rollout.
 - Japanese equities had another strong quarter, with a return of +7.7%. Strong corporate results and the outperformance of cyclical and value stocks led the market rally.
 - Emerging market equities returned only +2.2%, measured by the MSCI Emerging Markets index. With many Emerging markets having issued debt in US Dollars, the expected recovery in the US economy and hence the US Dollar has inhibited returns so far this year, despite rises in commodity prices aiding many emerging market economies.

- Bonds, in general, had a poor quarter as yields jumped across the board, and bond prices fell substantially. The extent of the price drop was such that Q1 2021 was one of the worst quarters for US Treasuries since 1980. In general, relatively higher risk fixed income indices (e.g. high yield bonds) outperformed lower risk indices (e.g. Government Bonds). In terms of regions, Eurozone bonds outperformed both US and UK bonds.
 - 10-year US Treasury yields started the quarter at +0.91% and ended the quarter at +1.75%. While yields are still low from a historical standpoint, the change was sharp and significant in size. It impacted other asset classes and sparked further discussions on government deficit spending and the loose monetary policies of central banks, though the Federal Reserve reaffirmed its commitment to low rates.
 - 10-year UK Gilt yields rose from +0.20% to +0.85%. At the start of the quarter, market concerns around the Bank of England policy were focused on the risks of negative rates; by the end, concerns focused on when rates would rise.
 - Most explanations for the yield increases centre on higher inflation due to the new US stimulus package, COVID-19 vaccination drives and a general view of a rapid post-COVID economic recovery. These increases were concentrated in longer duration bonds – Treasury yields remained flat or even fell at the short-end (sub 1-year maturities).
 - High Yield bonds outperformed Investment Grade bonds. European High Yield bonds returned +2.1%, and US High Yield bonds returned +0.8% in Q1. European Investment Grade bonds returned -0.6%, while the US and UK equivalents returned -4.6% and -4.4% respectively. While bond total returns were in general greater for higher risk bond indices, the US was the exception as US Treasuries returned -4.3%, marginally above the return of US Investment Grade Bonds.
- Commodities experienced another strong quarter, particularly in the energy and industrial metals space, which led some analysts to assert that we are entering a new bull market, or even a commodities “supercycle”. The combination of infrastructure spending, global recovery and production constraints have led to strong recoveries from last year’s lows, with many industrial metals rising above their pre Covid-19 values.
 - Brent Crude oil had a strong quarter (+22.7%), reflecting both the improving outlook for global demand and the supply constraints imposed by both the OPEC+ production cuts and the diminished supply from US shale production. The US Energy Information Administration expects global demand to grow by 5.4 mb/d this year to 96.4 mb/d. This would be a recovery of 60% of the demand loss in 2020.²
 - Copper had another strong quarter posting a +13.5% rise in price per pound, finishing the quarter at US\$4.0/lb. Demand from infrastructure stimulus, along with thematic trends in renewable energy and electric vehicles, have sustained optimism for future demand growth while disruption in supply from the pandemic in Chile and Peru (the world’s two largest copper ore exporters), has also supported the metal’s price rise.
 - Following on from the strong price recovery in Q4, natural gas prices rose slightly over the quarter by +2.7% to US\$2.61/MMBTU while peaking in mid-February.
 - In contrast to energy and industrial metals and despite the fears of rising inflation, the price of gold suffered heavily during Q1 (-9.6%), with prices down to US\$1,714 per troy ounce.
- As in Q4, global listed property delivered strong returns, with the FTSE Global Nareit index up +6.0% in Q1. Geographically, North America performed particularly strongly.
 - Green Street Advisor’s US Commercial Property Price Index rose by +2.6% over the quarter. The index is still -5% below pre-COVID levels and there is wide sub-sector dispersion. Their European Commercial Property Price Index rose +2.5% in the quarter, putting it just below the pre-COVID peak³.
 - The Nationwide UK house price index continued to rise, albeit at a slower pace than in Q4 2020, with a +1.1% rise compared to last quarter’s +2.9%. Annual house price growth was +5.7% compared to +7.3% at the end of 2020.

Sterling in Q1 continued to perform strongly, rising against both the Euro (+5.2%) and the Dollar (+1.1%). The UK’s service-based economy is seen as likely to benefit from a post-COVID rebound and the relatively rapid vaccination programme supports this view. The Dollar reversed its previous trend, with the Dollar Index Spot rising +3.7%, and rising +4.0% against the Euro on the back of greater expectations for a US economic rebound and despite the new

² IEA “Oil Market Report – February 2021”, February 2021

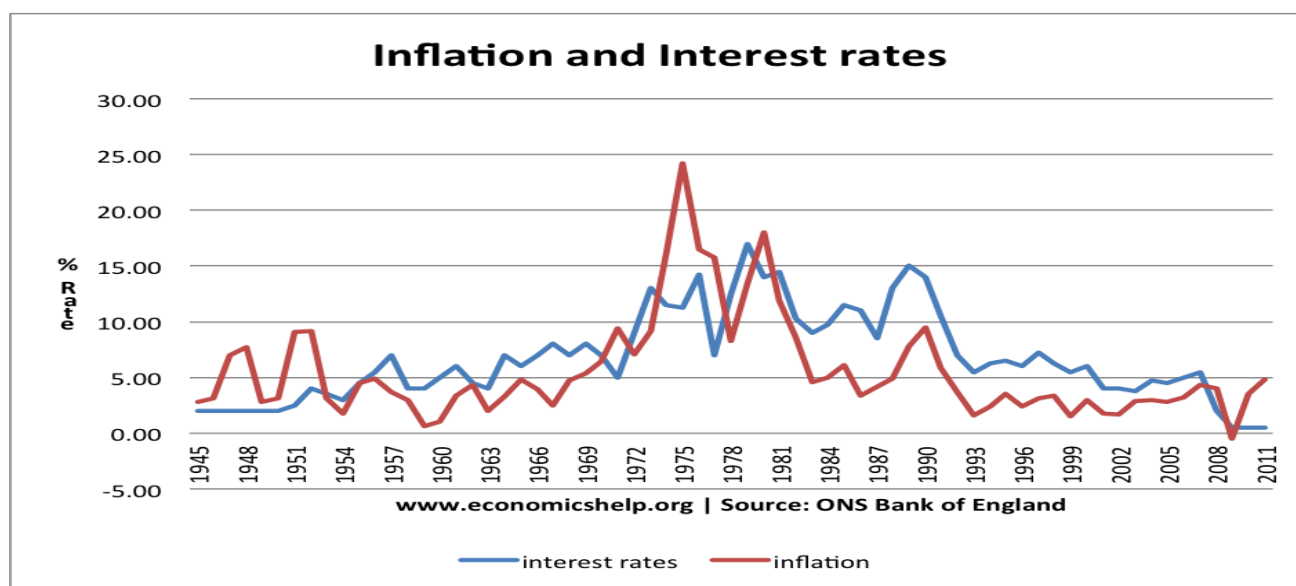
³ Green Street Commercial Property Price Index, April 2021

government fiscal commitments. A slower vaccination programme and the new wave of outbreaks in Europe dampened the Euro.

Global Outlook

Regarding the COVID-19 pandemic, my assumptions are that whilst new strains are likely to emerge, the current crop of vaccines or their modified successors will be efficacious enough for global economies to reopen over the next year. I would assume annual vaccinations become the new normal as we are unlikely to eliminate all strains of COVID-19 globally in the short term. The outlook for vaccination rates and the emergence of new strains will dictate market direction in the immediate future but I believe it is the outlook for inflation which will set the tone for investment markets for much of the next decade. It is therefore worth concentrating on this element and checking that the Fund is well positioned to perform in a number of different inflation scenarios.

As we exit the current round of economic lockdowns, the enforced savings by those who have remained employed or on furlough and whose health has not been impacted by the pandemic will increasingly be spent, boosting economic growth. This comes at a time when central banks are looking to keep interest rates at very low levels for the next few years and as governments globally look to increase fiscal spending to further boost economic growth. I believe the policy debate has shifted in a number of areas with previous minority views now becoming the new consensus and it is this change in thinking which will influence the economic environment going forward.



The chart above is from the Bank of England and shows UK interest rates and inflation over time. The two OPEC enforced oil price increases in 1974 and 1979 can be clearly seen but it is the appointment of Paul Volker as Chairman of the US Federal Reserve which is credited with bringing inflation under control. He was appointed in 1979 and within a few months committed to bring inflation under control by raising interest rates above the rate of inflation and keeping them there for as long as it took to bring inflation under control even if this meant driving the US economy into a recession.

Interest rates remained above inflation throughout the majority of the next 40 years with the rate of inflation falling through out this period until the Global Financial Crisis of 2008/9. Since then inflation has been subdued and often below central bank targets of around 2% (either explicitly or implicitly set). Over the last ten years the inflationary concern has shifted from it being too high to it being too low. The fear of stagnation and disinflation has taken hold. This is perhaps most recently seen in the August 2020 announcement by the US Fed that it was shifting its inflation target from a maximum of 2% to an average of 2% over the economic cycle, thus accepting that inflation could exceed 2% if it had previously been

below that level for a prolonged period (as has been the case). Put simply, central banks now fear disinflation and falling prices more than they do rising inflation and therefore policy risks will be biased to overshooting inflation targets not undershooting.

This shift in thinking has occurred in tandem with a policy shift around the acceptable scale of government indebtedness and spending across many of the developed economies. The support provided by governments to the Global Economic Crisis of 2008/9 is seen, in hindsight, as too little too late. Policy makers and market participants now believe you need to respond to a crisis by hitting early and hitting hard. This risk again has shifted with the accepted wisdom now being that under spending to counteract a crisis is the mistake, not over spending. With an electorate unaccepting of austerity, governments are content to accept the new, higher spending, wisdom.

We are now in a world where central banks will take risks of an overshoot in inflation and Governments receive little criticism for raising their indebtedness and spending heavily. This is coming at a time when many consumers have built up savings and have a high propensity to spend.

Trying to put some numbers on this is difficult but the US is the most extreme example here and quoting from a recent Financial Times interview of Larry Summers who worked in both the Clinton and Obama administrations gives the following figures:

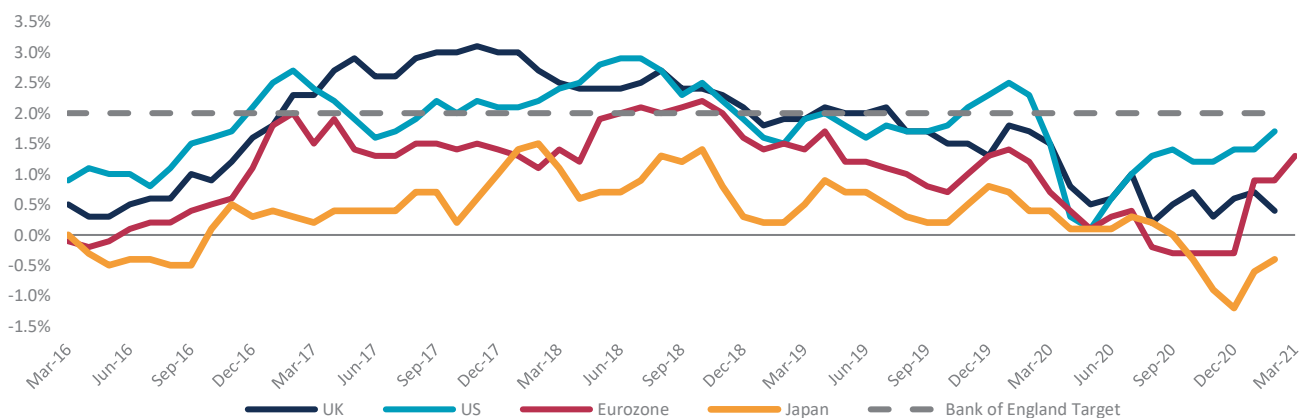
- US\$20-25bn of lost monthly wages due to covid, say US\$300bn over the year.

Set against this

- US\$900bn Stimulus package agreed in December 2020 by the incoming Biden Administration
- The proposed US\$2.25tn infrastructure spending plan currently being discussed in Congress.

These two packages account for 20-25% of US annual GDP and to over 10 times the estimated hit to personal finances from the pandemic. This comes at a time when the US Personal Savings Rate is estimated to have increased from 7.6% in 2019 to 13.7% in 2020 amounting to an extra £1tn of enforced savings.

5-Year Consumer Price Inflation (CPI) to 31 March 2021



In the short term inflation is already rising. It is calculated as the year on year change in prices and so the fall in prices 12 months ago, as the pandemic hit, will naturally mean a rise in prices as the earlier figures fall out of the calculation.

The chart below shows the expected rise in US inflation as the historic figures for last year fall out of the calculation. This shows US inflation as likely to hit 3.0 by May 2021.



Source: Unigestion

Covid-19 destroyed demand through the imposed economic lockdowns, but it did also reduce supply as a number of businesses will be unable to recover. The question remains how much this potential mismatch of rapidly improving demand and constrained supply will result in higher inflationary pressure?

Conclusions:

1. We know that inflation will rise over the next two months due to the method of calculation.
2. We know the major developed economies are likely to experience a rapid increase in consumer spending as the enforced savings of the last year are spent.
3. Longer term we suspect that policy mistakes are now more likely to be on the upside for inflation than the downside.

My expectation is that US inflation may remain close to or above 3% for the rest of this year without any reaction from the US Fed in raising rates. Rate rises will only happen if the markets force bond yields higher, therefore the risk for bond yields remains to the upside (prices to fall).

Longer term, there remain a number of strong disinflationary forces e.g. the speed of technological change and the demographic profile of much of the developed world. The longer term outlook for inflation is therefore uncertain but with inflation rising in the near term, market concern will remain on the upside.

The Fund has a relatively low exposure to Government Bonds having switched the Baillie Gifford Fixed Interest portfolio, which included an exposure to Government Debt, to a new Fidelity portfolio which focused on Investment Grade Debt, last year. The historic Fidelity Fixed Interest portfolio, which does include an exposure to Government Bonds was retained at that time for liquidity reasons.

The Fund is increasing its exposure to real assets which should show some correlation to rising inflation via the allocation to International Property, although it will take a couple of years for this money invested.

Fidelity are presenting their UK property portfolio at this Pensions Committee meeting and post this a discussion should be had about whether the Fund should increase its weighting in this portfolio back to the 5% weighting set in the Strategic Benchmark.

A rise in interest rate expectations may weigh more heavily on 'Growth' style stocks, this may provide a headwind to the Baillie Gifford Global Alpha portfolio but their strong investment process and underlying stock selection should go some way to counteract this.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£598m Segregated Fund; 44.8% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to exceed their performance target significantly
Last meeting with manager	Presented at the Jan Committee meeting. John Arthur/John Carnegie by phone
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

Although the portfolio underperformed by around 1% this quarter it has still outperformed by over 15% in the last 12 months which is a quite incredible achievement. With 'Growth' as an investment style underperforming 'Value' this quarter perhaps the underperformance was to be expected. With a rapid economic recovery now predicted, economically sensitive sectors of the economy like finance, manufacturing and consumer cyclicals should be expected to do well, this should lead to the continued recovery in 'Value' stocks. However, whilst this may provide a headwind to the Baillie Gifford's investment approach which focuses on high growth companies, I remain impressed by the intellectual rigour and thought leadership they show and their understanding of the market dynamics. The performance of the last 12 months will not be repeated but I do not expect this to be unwound going forward.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£293m Segregated Fund; 22.0% of the Fund
Benchmark/ Target	MSCI World Index
Adviser opinion	meeting long-term performance targets, underperforming short-term
Last meeting with manager	Phone call during the quarter: Elaine Alston/John Arthur
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

The MFS Global Equity portfolio outperformed in the first quarter by approximately 1% but, following a very poor second quarter 2020 performance, as the pandemic struck, the portfolio is still behind its index over the last 12 months. I would expect some outperformance of this portfolio going forward and it acts as a useful counterweight to the Baillie Gifford Global Equity portfolio.

The manager is presenting at this committee meeting and will give a fuller account of performance at that time.

Asset Class/Manager	UK Aggregate Bond fund and UK Corporate Bond Fund/ Fidelity
Fund AuM	£86m Unit Trust; 6.4% of the Fund / £65m unit trust; 4.9% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long-term performance targets
Last meeting with manager	Phone call during the quarter: PaOul Harris/John Arthur
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

Following the transfer of the Baillie Gifford Fixed Interest portfolio across to Fidelity and the decision by the Committee not to invest all the Fund's Fixed interest assets into the Fidelity UK Corporate Bond portfolio, the Fund now has two similar Fidelity Fixed Interest portfolios.

The UK Aggregate Bond Fund has a benchmark which is 50% UK Gilts and 50% UK non-Gilts; the UK Corporate Bond Fund has a benchmark consisting entirely of UK Investment Grade Corporates and, as such, contains slightly higher credit risk.

Portfolio	4Q20 performance	Duration	Yield
UK Agg Bond	-5.9%	10.5 years	1.2%
UK Corp Bond	-3.9%	8.2 years	1.7%

10-year UK Government Gilts yield rose from 0.2% at the start of the quarter to 0.8% by the end, an increase of 0.6% over the quarter. This back up in yields (fall in prices) impacted the performance of the two Fixed Interest portfolios. If you multiple the change in yield by the approximate duration of each portfolio you get the impact of the yield change on prices, i.e. for the Sterling Corporate portfolio with 8 years of duration a 0.6% rise in yields equates to a -4.8% fall in prices (0.6% x 8) for the Sterling Aggregate portfolio, which has a duration of 10 years the impact is higher at -6% (0.6% x 10). The Sterling Corporate portfolio recouped a part of the fall through credit selection. The Sterling Aggregate portfolio has a 50% weighting in UK Government Gilts and a higher credit quality and as such has less scope add value through credit selection.

My central assumption remains that UK Gilts yields will rise further through the remainder of this year and as such I would expect both of these portfolios to add little value in the short term. I believe the UK Corporate Bond portfolio is likely to outperform the UK Aggregate Bond portfolio over the long-term due to the higher yield available in UK Investment Grade Bonds over UK Government Gilts more than compensating for the increased credit risk in the portfolio.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£111m Pooled Fund; 8.5% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Slightly disappointing to date
Last meeting with manager	By phone during the quarter: John Arthur/ Russel Smith/Remi Olu-Pitan
Fees	0.35% of Fund value

The portfolio rose slightly over the quarter with Equities and High Yield Credit providing a positive return and Investment Grade; Government Bonds and Emerging Market debt falling. The expectation is for Government Bond yields to rise further (prices fall) during the next 12 months and as such they are unlikely to provide a useful return, even during periods of market stress. With this in mind, the portfolio manager has been increasing exposure to Real Estate, Infrastructure and Insurance linked assets, which, whilst they do not provide the natural hedge in a falling equity market that Government debt has done in the past, they are a stable source of income and, as such, should support the portfolio through periods of higher market volatility.

Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£133m Pooled Fund; 10.1% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	By phone during the quarter John Arthur/Paul Harris
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

The Fidelity Multi-Asset Income portfolio was flat over the quarter with Equity positions adding value and defensive assets falling. The manager continues to take a selective approach to adding to risk assets, focusing on UK Equities and Global Financials whilst selling down the holding in Investment Grade Bonds in the belief that yields have further to rise as the global recovery becomes more entrenched.

Fidelity have a lower return target at Cash +4% to Schroders Cash +5%. This means that the Schroders portfolio is likely to have a higher Equity weighting and Equity risk as it chases a slightly higher return. Both portfolios are currently yielding above the target 4% per annum and this yield is distributed to the Fund each month to cover any cash outflow.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£46m Pooled Fund; 3.5% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Has outperformed the peer group during the recent market turbulence
Last meeting with manager	Phone calls during the quarter John Arthur/Paul Harris
Fees	0.75% of Fund value

The manager is presenting to the Committee at this meeting and has been asked to cover the current market environment and wide dispersion of returns from different sub-sectors of the UK property market and the outlook for the four major redevelopments currently occurring within the portfolio. These redevelopments account for 16% of the asset value of the portfolio at the current time and the manager retains a high conviction that each of these properties can be re-let upon completion at a higher yield than prior to the redevelopment. Once this has been achieved, the independent valuer should revalue each property upwards to reflect the higher ongoing cashflow thus underwriting the value of the portfolio for the next couple of years.

The UK Commercial Property portfolio managed by Fidelity rose by 2.7% over the quarter and has returned 2.4% over the last 12 months. The portfolio has a low exposure to retail and hospitality assets and has achieved rental collection of over 90% since the pandemic struck with all outstanding rents being actively managed with each individual tenant.

The four properties currently undergoing refurbishment are as follows:

- Industrial Units in Wigan – valued at 5% of the portfolio AuM. Refurbishment completed in August 2020 and currently being marketed although this is being delayed due to the current lockdown. The expectation is to achieve a rent above the previous level.
- Office in Cardiff – The client exercised a break clause in the lease enabling them to vacate the property earlier than expected. This property is now being refurbished and completion was due end November 2020. The energy efficiency of the property has been improved and the expectation is to achieve a rental level 10%+ above the previous rent.
- Office in Southampton – This was a planned redevelopment due to lease expiry. Planning permission has been granted to add a fourth floor and infill the atrium with completion expected in mid-2021. The manager is targeting an uplift in rent of over 25% upon completion of the refurbishment.
- Barley Wood where the manager is looking for change of use from Office to Industrial.

The current vacancy rate is very high at 21% but over 16% of this relates to the four properties commented on above.

Rent collect for the portfolio remains above industry peers which has enabled the portfolio to maintain distributions close to pre COVID-19 levels.

Asset Class/Manager	International Property / Morgan Stanley
Fund AuM	US\$80m(£57.5M)/ Limited Partnership; 0.0% of the Fund
Performance target	Absolute return
Adviser opinion	
Last meeting with manager	Phone calls during the quarter John Arthur/Gareth Dittmer
Fees	

I would expect an initial drawdown this quarter of up to £5m as the fund manager is currently negotiating terms with its initial investment which is a distribution site in the US. The Fund currently is estimated to have sufficient cash to cover this investment. A further three potential investments are undergoing due diligence, a distribution centre in Tokyo, a small distribution centre in India and a family run hotel in Vienna. The Fund is likely to take three to four years to fully drawdown the US\$80m commitment and because it will start distributing cash from any completed sales before that date, the maximum amount drawn down at any one time is unlikely to surpass US\$70m. The first Shareholders Advisory Committee meeting will not be until the Autumn of this year and the Fund has an observer seat on this committee.

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Report No.
FSD21023

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: PENSIONS INVESTMENT SUB-COMMITTEE

Date: 29th April 2021

Decision Type: Non-Urgent Non-Executive Non-Key

Title: GOVERNANCE REVIEW OF THE LGPS

Contact Officer: David Dobbs, Head of Corporate Finance and Accounting
Tel: 020 8313 4145 Email: david.dobbs@bromley.gov.uk

Chief Officer: Peter Turner, Director of Finance
Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk

Ward: Borough Wide

1. Reason for report

- 1.1 This report sets out the results of the Good Governance Phase III report published by Hymans Robertson in relation to Local Government Pension Schemes, during February 2021. The report is a continuation of the Good Governance project and it provides further detail on the implementation of the proposals that were included in the Phase II report as accepted by the Scheme Advisory Board in February 2020

2. RECOMMENDATIONS

- 2.1 The Committee is requested to consider and note the report (refer to the Appendix for the full report) and the recommendations contained therein.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
-

Corporate Policy

1. Policy Status: Existing Policy. The Council's pension fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council
-

Financial

1. Cost of proposal: No Cost
 2. Ongoing costs: Recurring Cost. Total administration cost £5.3m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,000.3m total fund market value at 31st March 2020
 5. Source of funding: Contributions to Pension Fund
-

Personnel

1. Number of staff (current and additional): 1 FTE
 2. If from existing staff resources, number of staff hours: 35 hours per week
-

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016.
 2. Call-in: N/A.
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,253 current employees; 5,592 pensioners; 5,945 deferred pensioners (for all employers in the Fund) as at 31st March 2020.
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 In January 2019, the Scheme Advisory Board (SAB) appointed Hymans Robertson to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.
- 3.2 This paper provides details of the Good Governance Phase III report, published in February 2021. The report is a continuation of the overall project and it provides further detail on the implementation of the proposals that were included in the Phase II report, as accepted by the Scheme Advisory Board in February 2020.
- 3.3 It should be noted that MHCLG was represented during Phase II and Phase III of the project. Additionally, a senior representative from MHCLG also attends the meetings of the SAB. Therefore, the proposals are likely to be adopted by the MHCLG and compliance with them required of LGPS Funds through the issuing, in due course, of new Statutory Guidance on Governance in the LGPS (and if necessary, amendment to the LGPS Regulations).
- 3.4 The table below summarises the proposed changes to the LGPS governance as detailed in the Phase III report

Area	Proposal	
A: General	A1	MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	A2	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A3	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B: Conflicts of Interest	B1	Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B2	The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.
C: Representation	C1	Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.

D: Knowledge and Understanding	D1	Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D2	Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	D3	Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D4	CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E: Service Delivery for the LGPS Function	E1	Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E2	Each administering authority must publish an administration strategy.
	E3	Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	E4	Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F: Compliance and Improvement	F1	Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F2	LGA to consider establishing a peer review process for LGPS Funds

- 3.5 Amongst the recommendations, there is the proposed requirement (recommendation A2) for the administering authority to have a single identified officer (the 'LGPS Senior Officer') responsible for all LGPS matters. The report outlines several options as to the appropriate organisational level and requisite seniority for this individual, including the option of a new separate post dedicated to Pensions, or that the role be combined with an existing post such as the Finance Director/Section 151 Officer.

- 3.6 The recommendation to publish an annual governance compliance statement (recommendation A3) seeks to develop and enhance the existing requirement for this statement by including additional narrative concerning compliance with the recommendations of the report, as set out in paragraph 3.3. The statement will require formal sign-off by the LGPS Senior Officer.
- 3.7 The report refers to Scheme Advisory Board requesting MHCLG to produce statutory guidance to establish new governance requirements for funds to effectively implement these proposals (recommendation A1) and it is acknowledged that additional work will have to be completed to meet the new standards at Bromley. Once further detail is available, officers will report to the Committee with details of implementation proposals and how they impact on Pension Fund governance.

4. POLICY IMPLICATIONS

- 4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), for the purpose of providing pension benefits for its employees.

5. LEGAL IMPLICATIONS

- 5.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

Non-Applicable Sections:	Personnel Implications; Impact on Vulnerable Adults and Children; Financial Implications; Procurement Implications.
Background Documents: (Access via Contact Officer)	LGPS Regulations 2013 (as amended); Good Governance in the LGPS (Phase II Report).

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Good Governance: Phase 3 Report to SAB

February 2021

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Good Governance: Phase 3

Report to SAB

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Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a * the proposals addressed further in this report.

Area	Proposal
A. General	*A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	*A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	*B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – now updated
C. Representation	*C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	*D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	*D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	*D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	*D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of

	delegation and constitution and be consistent with role descriptions and business processes.
	*E.2 Each administering authority must publish an administration strategy.
	*E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	*E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	*F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

Committee a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

Further Discussion on Recommendations

A General

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance¹. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision² that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that the outcome of The Supreme Court’s judgment on LGPS boycotts (The Palestinian Case)³ may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund’s strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator’s codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority’s senior leadership level;

¹ [LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200](#)

² See Regulation 2(3A)

³ [R \(on the application of Palestine Solidarity Campaign Ltd and another\) \(Appellants\) v Secretary of State for Housing, Communities and Local Government \(Respondent\)](#)

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

Representing the fund at a senior level. The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

Capacity. The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

Reporting Lines. As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

Resourcing. The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

An ability to build strong relationships and influence. The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

Strong technical skills. There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

Strategic thinking. It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

Operational effectiveness. The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

Strong ethical standards. The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund's members and employers. They demonstrate and positively promote the seven principles of public life.

Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority's s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations⁴ require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

⁴ See Regulation 55 “Administering Authorities: Governance Compliance Statement”

B Conflicts of Interest

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct⁵. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

⁵ Similar codes apply for non-local authority administering authorities.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.

C Representation

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB's view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

D Skills and training

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

Treasury Guidance⁶ requires that all government departments should have professional finance directors and that “It is good practice for all other public sector organisations to do the same, and to operate to the same standards”.

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual’s ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

⁶ See Managing Public Money (July 2013), Annex 4.1

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

E Service delivery for the LGPS Function

E.2 Each administering authority must publish an administration strategy.

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6th January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
 - Minimum standards of performance;
 - Assessment of inefficiency costs;
 - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

Governance KPIs

Subject Area	KPI	Notes
Breadth of representation	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	<i>1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings</i>
Training and expertise	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
Compliance/ Risk	5. Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	<i>Key focus of TPR</i>
Appropriate governance time spent on key areas	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

Administration KPIs

		Notes
Data quality	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	<i>Include explanation where less than 100%.</i>
Service standards/SLAs	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	Y/N
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
Engagement and communication – capabilities and take-up	6. Specify which online services are available to members/employers	<i>Measuring services provided by Fund online, perhaps against an agreed standardised list.</i>
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	<i>Measuring take up of services</i>
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	<i>Percentage take-up could be weighted to size of employer.</i>
Customer satisfaction	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	<i>Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. “The service was excellent – Strongly Disagree/Disagree/Agree/Strongly Agree.”</i>

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

F Compliance and Improvement

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

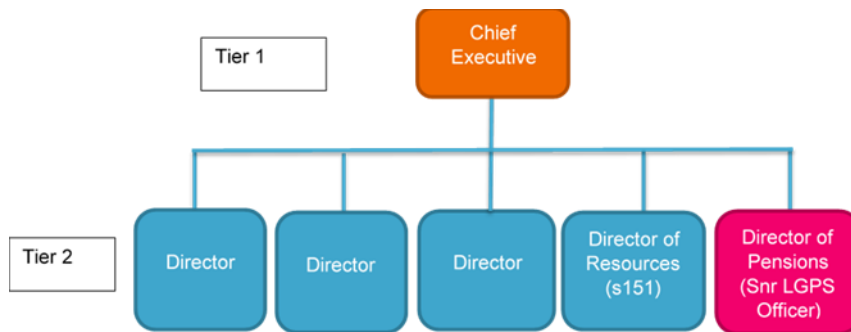
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

Appendix 1 - Senior officer organisational structures

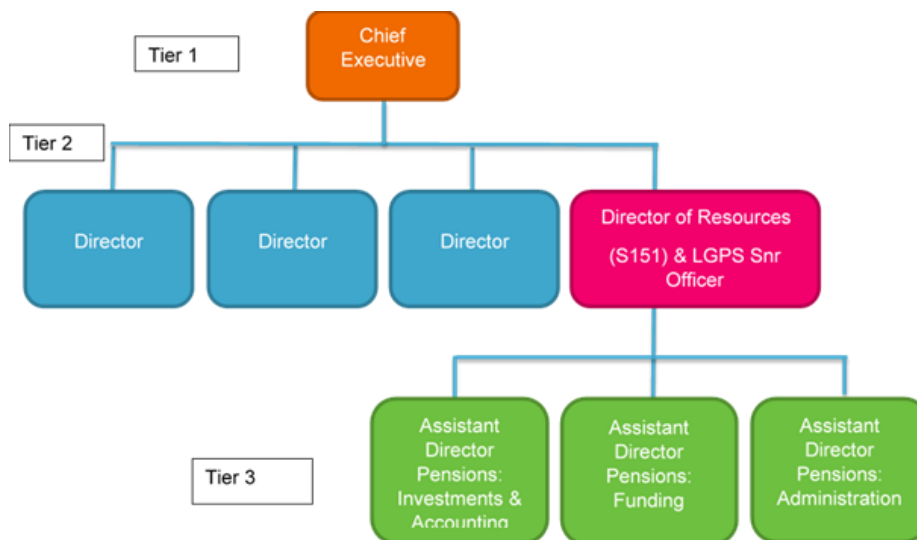
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



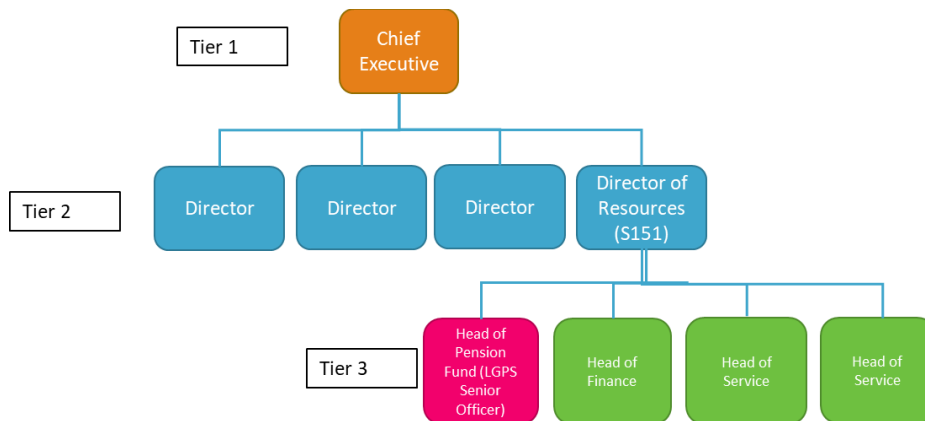
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



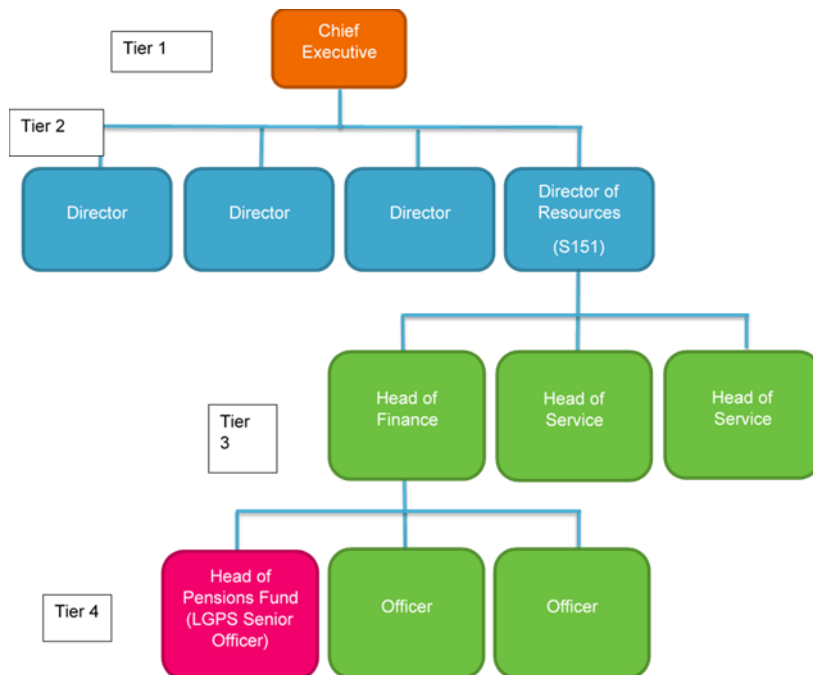
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



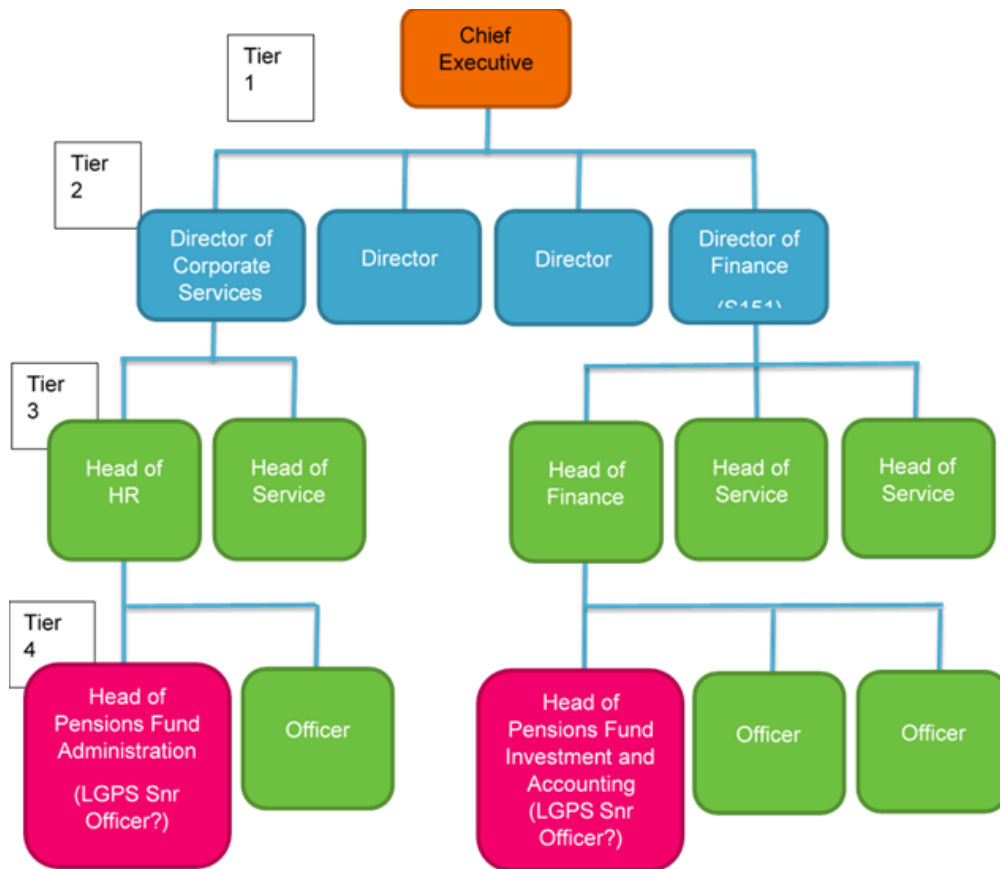
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

- (a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;
- (b) if the authority does so-
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,
 - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

A Conflicts of interest

A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes its approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

C Sufficiency of resources for service planning and delivery

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

C.1 Business planning and budget setting

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

C.2 Service delivery

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;

- the Fund's approach to the use of technology in pension administration.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

D. Representation and engagement

The Fund has published a Policy on representation and engagement.

D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
Voting Members						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
Cllr B (vice-chair)	Administering Authority	Y	Y	Y	Y	100%
Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
F	Employer representative	Y	Y	N	Y	75%
G	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	Member representative	Y	Y	Y	N	75%
I	Member representative	Y	Y	Y	Y	100%

D.2 Membership of the Local Pension Board

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
 - 2 elected members of the Council
 - 1 elected member of the District Council
 - 1 member representing all other employers
- 4 scheme member representatives comprising;
 - 1 member appointed by trade unions
 - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

E. Training

E.1 Training Strategy

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		Subject				Total (hours)
		Governance	Investment	Pensions Administration	Other (specify)	
Pensions Committee						
Cllr A (chair)		2	5	1	1	9
Cllr B (vice-chair)		2	4	1	1	8
Cllr C		4	5	2	2	13
Cllr D						
Cllr E						
F						
G						
Vacancy						
Sub-Total						130
Pensions Board						
R (chair)		2	5	1	1	9
S (vice-chair)		2	4	1	1	8
T		4	5	2	2	13
U						
V						
W						
X						
Sub-Total						100
Officers						
LGPS Senior Officer		6	8	3	4	9
X						
Y						
Z						

Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

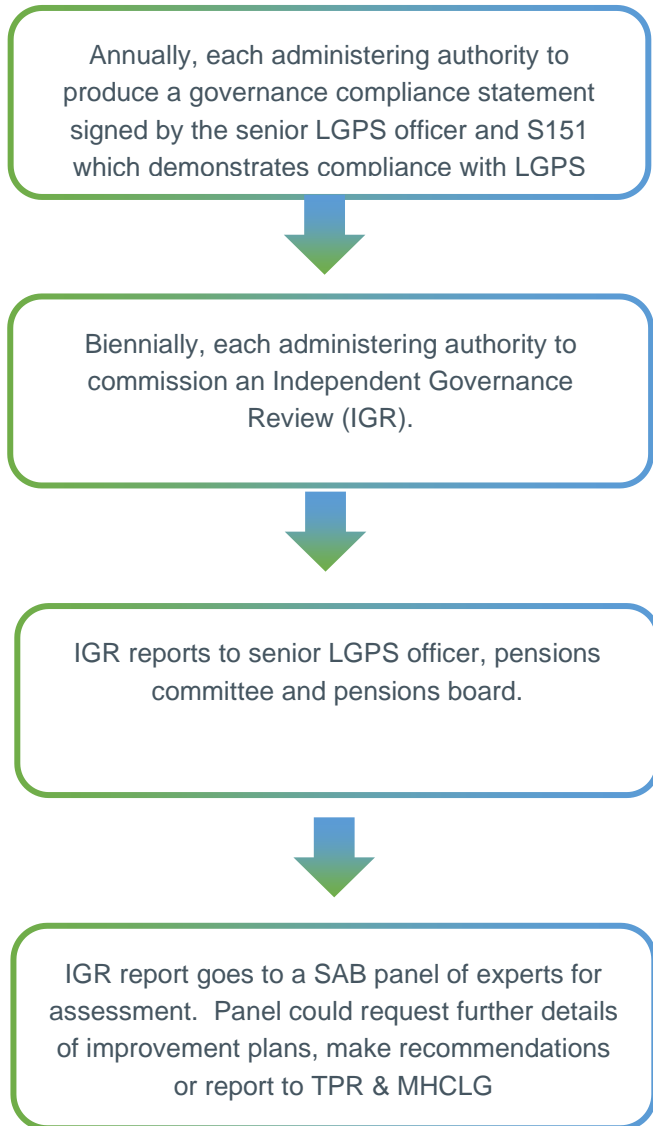
Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
Voting Members						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
Cllr B (vice-chair)	Administering Authority	Y	Y	Y	Y	100%
Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
F	Employer representative	Y	Y	N	Y	75%
G	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	Member representative	Y	Y	Y	N	75%
I	Member representative	Y	Y	Y	Y	100%

Pensions Committee – Meeting Content (Governance KPI 7)

			Meeting Date				Number of times item considered
			MM/YY	MM/YY	MM/YY	MM/YY	
Meeting duration (hours)			3.0	2.5	4.0	2.5	
Governance							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
Funding							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
Investment							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
Pensions Administration							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

Appendix 4 - Summary of the Independent Governance Review



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

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