

# Lambeth Pension Fund Annual Report

2013-14

**2013-14 was a remarkable year for Lambeth Pension Fund. During the year the funds asset value passed the one billion mark for the first time. It was a busy year with activities such as the Triennial Valuation, Strategy Review, and Election of Panel Members and more all of which are covered in detail within this report.**

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# Chairman's Report



## Pension Fund Investment Panel Chair's Introduction

It is my pleasure to introduce the annual report of the Lambeth Pension Fund. Against a difficult economic background the Lambeth Fund has performed well, confirming that strategic decisions made a few years ago were good ones. For the first time the assets of the Fund exceed £1 billion, but with greater liabilities which in the end the Council has to fund at a time when its finances are already stretched, it is essential that good management is maintained.

Some recent highlights of 2013/14 include:

**Triennial Valuation:** It is a statutory requirement that the Fund liabilities are valued every three years. For the 2013 valuation the Lambeth Pension Fund adopted a new approach to valuing its liabilities (circa £1.3bn) by adopting a "stabilisation approach" which will save the council £7m over three years whilst being supported by our actuary.

**Investment Strategy Review:** The Lambeth Pension Fund has also adopted best practice (similar to that of the private sector) by being one of only a handful of Local Government Pension Scheme (LGPS) Funds to review its investment strategy alongside the Triennial Valuation. Officers of the Fund have worked with the Fund's investment adviser, to develop recommendations subsequently adopted by the Council. These modify the existing strategy and build on its success.

**Election of Members to the PFIP:** A requirement of the Pension Act 2013 is for LGPS to have a balanced board. Lambeth has already moved to meet these requirements by electing two new employees, and two pensioner representatives to its panel in 2013 to sit alongside five elected councillors.

**London Collective Investment Vehicle (CIV):** As part of working collaboratively with other LGPS funds, the Lambeth Pension Fund has signed up to the London CIV and is represented by one of its officers on a technical board. The Pension Fund Investment Panel was in agreement to working collaboratively with its London neighbours and approved this arrangement in principle. This is subject to taking the necessary steps to officially join the joint committee in 2014/15.

**New Employers to the Fund:** Five new employers were admitted to the Fund over the past year, thereby helping to support the Council's Co-operative agenda.

**Publicity:** Over the year officers have represented the Fund at various conferences; notably key talks given and panel appearances at the National Association of Pension Funds and the Local Authority Pension Fund.

The outlook for local authority pension funds has considerable uncertainty given not only continuing growth in liabilities and difficult investment environment, but ongoing government reviews of their methods of working. However, Lambeth is well placed to meet these continuing demands. Reaching this position has been due to valuable contributions from a number of quarters so thanks are due to members of the Pension Fund Investments Panel, both councillors and lay members, officers of the Council and our advisers. All have approached their responsibilities in recent years with a serious and open minded sense of purpose which ensured that the Fund is better placed than some to face these continuing uncertainties.

**Councillor David Malley**

Chair, Pension Fund Investment Panel

June - 2014



## Review of the year

The world economy had a good 2013. Of course for many it was still a struggle, with the Eurozone in recession for much of the year and living standards in most of the developed world still below their 2007 peak. But by the end, even the laggards had started to catch up, and for them the long nightmare of recession and its aftermath began to recede.

The UK economy has mounted a strong recovery over the past year and we expect this to continue in 2014/15. Most sectors and regions of the economy are now showing positive growth trends, with recent signs that business investment is also starting to pick up. In the longer term, reshoring could also boost output and employment in both manufacturing and services.

However, while the recovery has been rich in jobs, it has been poor in productivity and wages. Median real household incomes remain well below pre-recession peaks and can only be expected to recover gradually over the next few years.

Pension funds, especially the public sector pensions, continued to be on the spot list in the year. Following the 2010 Lord Hutton review on 24 April 2013 the Public Service Pensions Act received Royal Assent. This Act allows for the introduction of career average pension schemes for public sector workers. It also links the normal pension age for public service workers to the state pension age, which is due to rise to 67 by 2028 and then to 68. The Pensions Bill 2013/14 was introduced to Parliament on 9 May 2013. The Bill received Royal Assent in May 2014 and became the Pensions Act 2014.

The single-tier pension will replace the current basic State Pension and additional State Pension with a flat-rate pension that is set above the basic level of means-tested support for people who reach State Pension age on or after 6 April 2016.

### **Lambeth Pension Fund**

2013/14 has been a very busy and interesting year for Lambeth Pension Fund. The Fund had a successful triennial valuation which resulted in a funding level of 72.6% which is 0.1% from 2010 valuation. This was welcomed by the Fund.

### **LGPS 2014**

During the financial year 2013/14, an important aspect of Lambeth Pensions work was a major project to prepare for the new scheme, LGPS 2014, which came into effect from 1 April 2014. This involved a number of actions that included: extensive communications to all employees, employers, and HR staff about

the new scheme rules and pension contribution bands and ensured that all stakeholders understood their responsibilities under LGPS 2014. In order to have the system and process in place the administration team ensured that pension's software correctly performed new calculations, re-wrote the LGPS discretionary policy statement and amended the standard documents including forms, letters and guidance notes.

### **Investment Performance**

The Fund produced very good returns on its investments. The Fund's value increased by £81m in the year to £1.03bn as at 31 March 2014. The investment strategy implemented a few years ago continues to pay dividends. In the year, the Fund's equity and bond investments made significant contributions to the level of growth. The UK and Global equities investments appreciated by 14.3% and the Fund's bond investment appreciated by 2.7% in the year.

The Fund outperformed the benchmark over the quarter to 31 March 2014, and over one and three years. The majority of the Fund's managers outperformed their benchmarks.

### **Fund Management Arrangements and asset allocation**

2013/14 was a significant year for the Lambeth Pension Fund. The Fund's net assets reached £1bn in December 2013 and as at 31 March 2014 were valued at £1.03bn representing 8.5% growth in the year.

The Fund's diversified portfolio contributed to the Overall improvement. All the other assets classes performed above their one and three year benchmarks except Global Currency.

As well as the triennial valuation, a review of the Funds Investment Strategy was also carried out and recommended changes were approved by the Corporate Committee in April 2014, after being considered by the Pension Fund Investment Panel. The Fund is looking to de-risk by coming out of active currency and obtaining protection on its unrewarded risks (inflation and interest rates) by taking out a Liability Driven Investment. The Fund is also looking to maintain positive cash flows and as such is looking to top-up its private equity portfolio. The Fund will also be keeping a close eye on the performance of its hedge funds as part of its de-risking strategy. There were no major changes to the Funds asset allocation with only the 5% held in active currency being moved into equity, taking its allocation up to 38%.

### **Membership**

The Fund had 4,834 active, 7,832 deferred and 6,525 pensioner members as at 31 March 2014. During the year the overall Fund membership has increased by 871 members. This is mainly due to auto-enrolment that came into place in April 2013. In addition to auto enrolment there was an increase in the number of new employers that joined the Fund in the year. Once again there was an increase in deferred members due to an ongoing reduction in staff numbers as the council responds to a reduction in overall resources.

Five new employers were admitted to the scheme in 2013/14.

Oasis Southbank Academy

Future UN Ltd.

Aspire Wellbeing

Elfride Rathbone

### City Height E Act Academy

The total number of employers (excluding Lambeth) participating in the Fund was twenty-five as at 31 March 2014.

In the year the Fund received £57.9m as contributions from employers and employees and transfers in from other schemes, and paid out £51.0m in total as pension benefits and transfers out.

### **New Pension Fund Investment Panel.**

Following the May 2014 local elections, a new look PFIP was formed; with Cllr Adrian Garden and Cllr Neil Sabharwal being elected as Chair and Vice Chair. Sitting alongside them will be Cllrs Ian Simpson, Mary Atkins and Jack Holborn. Earlier in October 2013 the panel was diversified with the election and appointment of co-opted members to the panel; Linda Osborne and Desmond Okechukwu were elected as employee representatives; Peter Woodward and Peter Davies as pensioner representatives and Jon Rogers as the trade union representative. We welcome them all and look forward to working with them.

We thank our outgoing chair Cllr David Malley who has played a very active role in effective management of the Lambeth Pension Fund. We also thank Cllrs Peter Truesdale and John Whelan for their contribution to the Panel.

### **Conclusion**

I am pleased to look back on 2013/14 as a successful year for the Fund and have every confidence that the Fund is well placed to deal with the many changes and challenges it faces in 2014/15.



**Guy Ware**  
**Strategic Director of Enabling**

# Management Structure 31 March 2014

## Administering Authority:

London Borough of Lambeth

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## Administrator:

Guy Ware - Strategic Director of Enabling

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## Pension Fund Investment Panel:

Cllr David Malley (Chair)

Cllr Neil Sabharwal (Vice - Chair)

Cllr Adrian Garden

Cllr Peter Truesdale

Cllr John Whelan.

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## Employee Representatives:

Peter Woodward (Trade Union)	(left Oct 2013)
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Jon Rogers (Trade Union)	(from Oct 2013)
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Desmond Okechukwu,	(from Oct 2013)
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Linda Osborne	(from Oct 2013)
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Fleur Hogarth	(left July 2013)
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Kathryn Crockford	(left July 2013)
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## Pensioners Representatives:

Peter Davies	(from Oct 2013)
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Peter Woodward	(from Oct 2013)
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Paul Martin	(left July 2013)
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Lesley Wood	(left July 2013)
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## Council Officers:

Christina Thompson	- Divisional Director of Integrated Support
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Frank Higgins	- Head of Financial Strategy
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Andrien Meyers	- Treasury & Pension Fund Manager
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Nemashe Sivayogan	- Pension Fund Accountant
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Shida Ashrafi - Head of Payroll, Pension & Staff Support  
Linda Osborne - Pensions Manager

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**Bank:**

National Westminster Bank Plc

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**Legal Advisors:**

Council Lawyers

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**Fund Managers:**

Adam Street Partnership  
Baillie Gifford & Co  
Blue Crest Capital Management LLP  
Invesco Perpetual  
Insight Investment  
Majedie Asset Management  
MFS Investment Management  
Pacific Alternative Asset Management Company (PAAMCO)  
Principal Global Investors  
Standard Life  
RREEF

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**Advisers:**

Mercer Ltd

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**Custodians:**

State Street Global Advisors

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**AVC Providers:**

Prudential  
Clerical Medical  
Equitable Life

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**Actuary:**

Hymans Robertson

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**Auditor:**

Deloitte LLP, UK

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# Governance Compliance Statement

This is the Governance Policy Statement of London Borough of Lambeth Pension Fund administered by the London Borough of Lambeth (“the Administering Authority”). The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005 require administering authorities to prepare and maintain a separate written statement of governance policy on pension fund matters. Governance is the leadership, direction and control of organisations to ensure they achieve their aims and objectives. In particular in the public service organisations these processes need to be clear and open to scrutiny.

## Delegation of Pension Fund Management and Administration

### Pension Fund Investment Panel (PFIP)

The Pension Fund Investment Panel (“the Panel”) is appointed at the beginning of the administration year by the Corporate Committee as “quasi - trustee” of the Pension Fund. Subject to the Council’s Scheme of Delegation, to discharge the Council’s functions in relation to the Local Government Pension Scheme, the Council delegates its responsibility for the administration of the Fund to the Corporate Committee which is the formal decision making body of the Fund, on receipt of recommendations from the Panel.

The terms of reference for the Lambeth Pension Fund Investment Panel are as follows:

1. Determining the overall investment strategy in accordance with the Local Government Pension Scheme Regulations and subject to approval by the Corporate Committee, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives.
2. Determining the Statement of Investment Principles, subject to approval by the Corporate Committee and modification as appropriate.
3. Ensuring adequate monitoring and compliance with the overall investment strategy and the Statement of Investment Principles.
4. Making recommendations to Corporate Committee with regard to the appointment of investment managers and any external service providers and advisers felt to be necessary.
5. Maintaining effective arrangements for reviewing on a regular basis investment manager performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems.

In accordance with those recommendations made by the CIPFA and the Myners Report, the Panel comprise of the following:

- Five elected Members,
- Two representatives from the members of staff of the London Borough of Lambeth, who are members of the Fund.
- One Trade Union Representative.
- Two representatives of Pensioners of the Fund.

In accordance with Best Practice, only elected members have voting rights. Pensioner and staff representatives have been elected for a term of 3 years by a ballot of members of the Fund.

Provision is made for Members to undergo training sessions to assist them in making informed investment decisions and to keep them informed on other matters concerning the Local Government Pension Scheme.

At all times, the Panel must discharge its responsibility in the best interests of the Lambeth Pension Fund. The Panel meets formally each quarter at Lambeth Town Hall and attendance at these meetings during the year was 70% for the voting members and 87.5% for the non-voting members.

### **Pension Fund Investment Panel Meetings**

The Pension Fund Investment Panel meets quarterly; additional meetings are convened as and when required. Notice of the meeting is sent to all members of the Council and Members sit as Borough-wide representatives, and where necessary, make any declarations of interest.

A yearly calendar detailing the times and venue of the Panel's meetings is also posted on the Council's website.

Panel meetings are held in the evenings at the Town Hall Brixton and are open to members of the public. The investment managers make presentations to the Panel at quarterly meetings on the Fund performance, implementation of the investment policy and any other developments. Reports to the Pension Fund Investment Panel are published on the Council's website.

### **Advice and Monitoring**

The Pension Fund Investment Panel is advised by the Strategic Director of Enabling, the Director of Corporate Affairs the Fund's investment consultant and the Fund's Officers. The Strategic Director of Enabling is responsible for ensuring that the in-house team is providing adequate support to the Panel.

In between the Panel meetings, the fund managers report to the officers of the Fund, who represent the Strategic Director of Enabling, on investment performance and of implementation of any new investment policy.

The Fund's procedures are subject to audit and scrutiny by the Council's internal audit team. The annual external audit is carried out by Deloitte LLP.

## Communication

Effective communication with all members and Scheme Employers is very important. The Fund's Communications Policy Statement formalises the processes by which this will be achieved. The full version of the communication policy attached as appendix 3 to this report also available on the Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

The Fund uses the following ways to provide up-to-date and accurate information to its members.

### Website

The Fund's dedicated website has all the relevant information on joining the Pension Fund, Fund performance, and latest changes in LGPS Regulations.

Website: [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions)

### Annual Reports

The Lambeth Pension Fund Annual Report will be available to all Scheme Employees. The Annual Report has the Fund Statement of Account for the year ended 31 March and further useful information on Fund operations. The annual report is also available on the Fund webpage.

### Annual Benefit Statements

Annual Benefit Statements are sent out to all active and deferred members. This statement provides details of their pension benefits. It is hoped that our members find them a useful aid in assessing the benefits they have accrued and their prospective benefits at retirement. The Fund plans to continue improving and updating the statements to ensure the information provided is accurate, clear and understandable.

### Contact Details:

#### Pension Administration

Lambeth Pension Services  
8th Floor, Phoenix House  
10 Wandsworth Road  
Vauxhall  
London SW8 2LL  
Telephone: 0207 926 9572  
email: [pensions@lambeth.gov.uk](mailto:pensions@lambeth.gov.uk)

#### Investment Management

Treasury and Pension Fund  
3rd Floor, Olive Morris House  
18, Brixton Hill,  
Brixton  
London SW2 1RL  
Telephone: 02079269786  
email: [pensionfund@lambeth.gov.uk](mailto:pensionfund@lambeth.gov.uk)

# Risk Management

The PFIP has overall responsibility for internal controls and risk management. The panel is committed to identifying, evaluating and managing risk and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. In order to meet this responsibility a Risk Register has been developed and is found within the SIP; for 2014/15 a risk register has been developed and will be also maintained outside the SIP. The register identifies the key risks that the Fund is exposed to and, having evaluated the impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk.

## Investment Risks

The Statement of Investment Policy is the main tool by which the Fund controls investment risk. One of the principal ways in which the Fund manages risk is through diversification of assets and managers. The provision of expert advice is crucial to the decision-making and risk management processes. The knowledge of PFIP members must be sufficient for advice to be challenged and understood. To facilitate this, the Fund is committed to training, the Panel members are also required to attend external training courses and internal workshops to aid them to discharge their duties.

The investment management process is outsourced to third parties, specifically investment managers and custodians. This arrangement provides a clear segregation of duties within the Fund, with the in-house investment team closely monitoring compliance with regulations and mandates. The Fund investment adviser, Mercer Limited, monitors the performance of the Fund and managers, and reports to the PFIP on a quarterly basis.

## Financial Risks

The Fund's financial management framework is the same as the Council. The budget, which is set annually as part of the three year forward looking service plan, is monitored by Council Officers. The financial accounting system is integrated with the Council's, and the segregation of duties and control structure is agreed with and annually reviewed by Internal Audit. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments, and processes are in place to ensure that contributions are reconciled regularly.

## Benefits Administration Risks

The administration risks relate mainly to the inability of the Administrator to meet its obligations to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risk are non-payment or late payment of members' benefits or incorrect calculation of benefits; breach of Data Protection Regulations and failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. Such risks can lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan (see below) and mitigated in the Risk Register which is reviewed annually by the Administering Authority and updated as necessary.

## Business Continuity Plan

An up-to-date Business Continuity Plan is in place to deal with "disaster recovery" and includes contingency measures. The Plan identifies critical activities whose failure would lead to an unacceptable loss of service. It also documents and has put in place measures to minimise the risk of disruption to the service and specifies what "triggers" the contingency measures coming into effect.

## Pension Administration

The Pension Fund Administration team is part of the enabling cluster under Business and customer Services and it is responsible for Fund administration. The London Borough of Lambeth Pension Fund operates the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, of the London Borough of Lambeth. Pension scheme members also include employees of Lambeth Living and other organisations that have made admission agreements with the Fund.

The Scheme is a public service pension scheme regulated by statute through the Department for Communities and Local Government (DCLG). Up to 31 March 2014, the LGPS was a contributory final salary scheme, which is contracted-out of the Second State Pension (S2P) and is exempt approved for tax purposes. From April 2014 the scheme changed from a final salary scheme to a career average scheme.

With effect from 1 April 2013 automatic enrolment to the Pension fund was introduced and over 1,000 workers were automatically enrolled into the Fund. A number of these people chose to opt out and as at 31 March 2014, 15% of employees were not a member of the LGPS. As at 31 March 2014 there were 19,191 members in the Lambeth Pension Fund.

### Pension Investment Management

The Pension Fund investment management team is part of the enabling cluster under integrated support and it is responsible for Fund accounting and all matters concerning investment managers' performance.

The team works with fund managers, the Fund custodian, the Fund actuary and the Fund's investment consultants to effectively monitor and evaluate investment performance. The team ensures all Pension Fund transactions are properly accounted for and produce the annual Pension Fund Account and Annual Report. The team also liaises with employer representatives other than the London Borough of Lambeth with regard to issues such as the level of contributions arising as a result of the triennial valuation carried out by the fund actuaries, Hymans Robertson LLP and employers who are eligible to join the Lambeth Pension Fund.

The team produces quarterly reports to the Pension Fund Investment Panel and Corporate Committee on Fund performance, and also updates on key documents such as the Statement of investment Principles when required as well as topical issues concerning regulatory change. The team also ensures that the Panel members have the relevant knowledge and skills to undertake their duties by organising and delivering training as required.

The team is managed by the Treasury and Pensions manager who reports to the Head of Financial Strategy. They are supported by the Pension fund Accountant. Working together with the pension administration team they aim to deliver an effective and timely service to Fund members. In 2013/14 the Fund incurred £904k in administration expenses (2012/13 - £849k). The increase is due to the actuarial costs incurred as part of the triennial valuation in 2013/14 and an increase in central overhead charge.

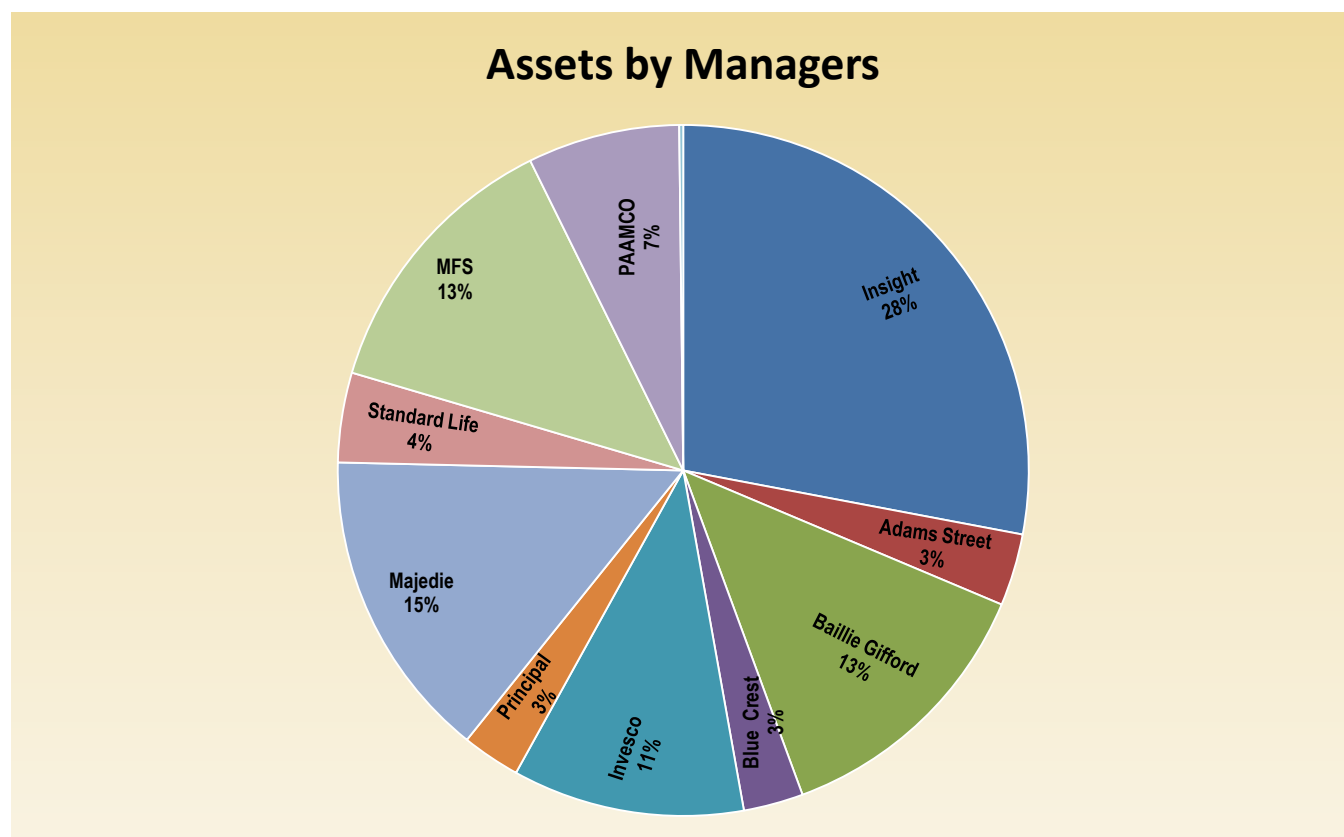
## Investments

The Pension Fund Investment Panel is responsible for the appointment of external investment managers, (subject to approval by corporate Committee) to whom the day-to-day management of the Fund's investments is delegated within guidelines agreed with the Panel. Each manager has discretion in the selection of its range of investments, within the parameters of each portfolio, to achieve its performance target. The present investment structure involves actively managed specialist portfolios for UK equities, overseas equities, bonds, property, currency, private equity and hedge funds.

The investment objective of the Fund is to invest in assets so as to target a rate of return of 1.6% above the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2013 (an absolute return target of 4.6% per annum), with the weighting between constituent asset classes determined so as to reduce the expected volatility of the funding level going forward.

The Pension Fund Investment Panel monitors the continued appropriateness of the strategic allocations. The objective of the portfolio is to increase the value of the Fund by outperforming their respective benchmarks. The performance is measured against the benchmarks every quarter.

The chart below shows the value of assets held by each investment managers at the year end.



Due to the size the RREEF investment 0.15% is not showing on the diagram



**Investment Administration**

The investment administration is managed by fund global custodian State Street Global Services. State Street is responsible for the safe-keeping of the Fund's assets and reconciles the investment managers' balance against the custody records and reports any difference. The custodian also acts as the Fund's banker, settling transactions and collecting income.

**Investment Management Expenses**

The investment managers' fee is calculated on market value and paid every quarter. The amount of fees payable is calculated on the market value of the fund under management at the end of the quarter. The total management fee incurred for the year was £6.0m, of which only £2.2m was actually remitted; the remainder was deducted in the daily pricing of the individual portfolio's net asset value.

## Fund Performance

### Investment Performance

The Fund's performance is measured by the Fund's investment advisers, Mercer Limited, every quarter. Mercer reviews the performance of the individual fund managers and the Fund as a whole against set benchmarks and reports to the Pension Fund Investment Panel's quarterly meetings.

The investment strategy implemented in 2010 and completed in 2011 produced a healthy return in 2013/14. The fund's net asset value increased by £81.1m in the year resulting in a net asset value of £1.03bn as at 31 March 2014. Good performance combined with favourable market conditions helped the Fund to achieve the £1bn mark for the first time. Over one billion worth of net assets for the first time.

According to the Fund Performance advisors report, the majority of Fund managers outperformed their benchmark over the quarter to 31 March 2014.

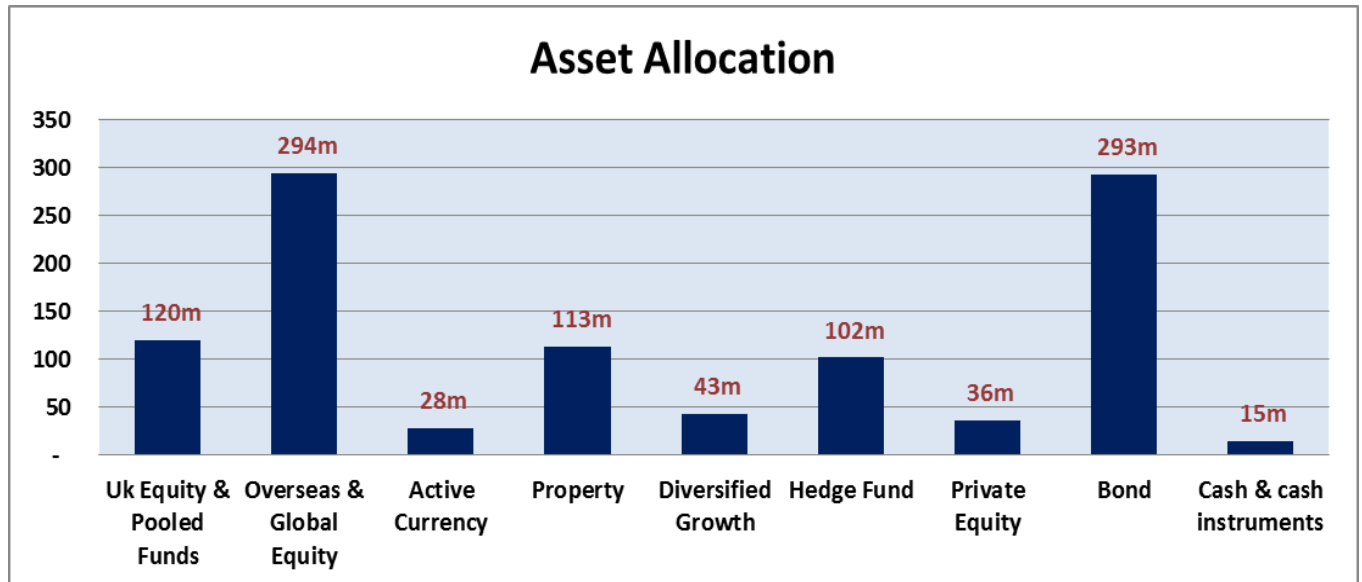
The table below shows that the Fund has significantly outperformed the benchmark over the one and three years and has marginally outperformed the benchmark over the period since the inception of the investments to 31 March 2014.

Manager	Last Quarter		Last Year		Last 3 Years		Since Inception	
	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
Insight	2.9	2.4	2.7	1.6	-	-	8.7	7.1
MFS	0.2	0.6	8.7	8.4	13.2	8.8	16.0	12.1
Majedie	2.1	-0.6	21.5	8.8	15.9	8.8	10.9	4.8
Baillie Gifford	2.2	0.5	12.8	6.7	11.2	7.7	14.7	10.9
Invesco <sup>(a)</sup>	1.8	0.1	4.4	0.5	5.1	0.7	6.5	0.7
PAAMCO	3.0	0.1	12.2	0.5	6.3	0.7	7.4	0.7
Standard Life	0.4	0.2	4.1	0.7	6.7	1.0	5.3	1.0
Principal	-3.7	0.1	-14.0	0.4	-5.2	0.4	-6.3	0.4
BlueCrest <sup>(a)</sup>	2.3	0.1	4.4	0.5	6.1	0.7	6.8	0.7
RREEF <sup>(b)</sup>	-1.4	3.9	12.3	14.0	-4.7	7.6	-14.5	2.3
<b>Total (ex-Adams Street)</b>	<b>1.8</b>	<b>0.9</b>	<b>7.7</b>	<b>3.5</b>	<b>9.6</b>	<b>6.9</b>	<b>4.7</b>	<b>4.3</b>

*Figures are based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream. Direct comparisons are not always possible for private equity performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance).*

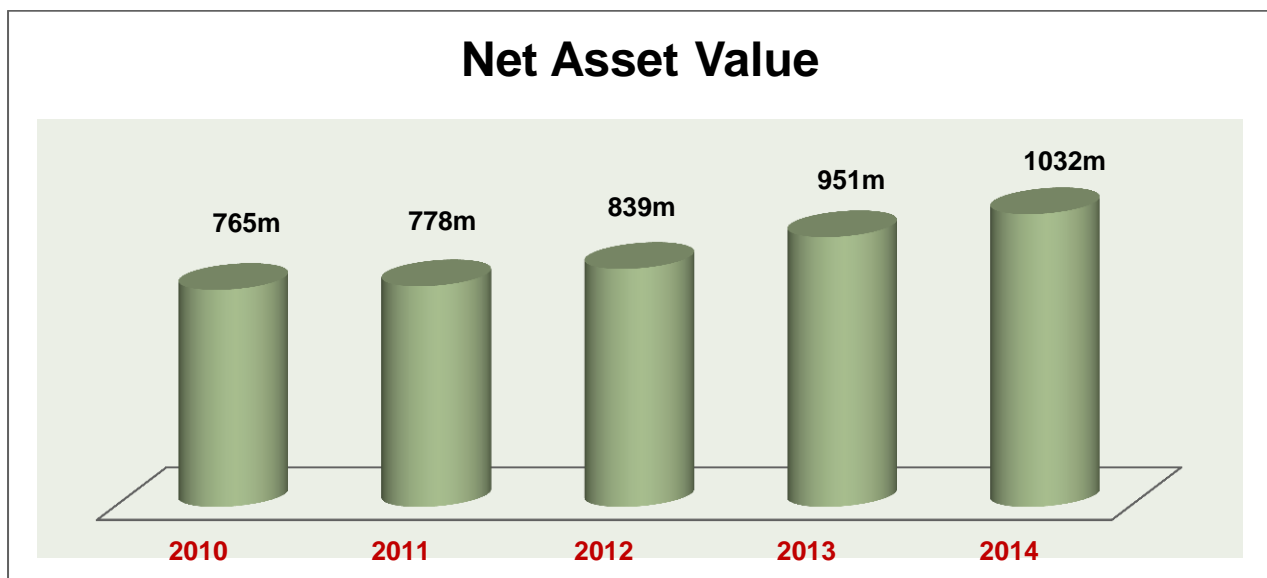
## Asset Allocation

The Fund has a well-diversified investment portfolio managed between ten external investment managers. The Fund's investment strategy determines the asset class and the allocation of assets. The chart below shows the value of assets held in each asset class as at 31 March 2014. The Fund had 14.4% in UK equity, 81.2% in pooled investment vehicles, 3.5% in private equity investment and 0.9% in cash.



## Net Asset Value – Movement

The graph below shows the movements in the net asset value for the past five years. Over the five years, the Fund has grown by 34.8%. The implementation of a new investment strategy which now follows a very active approach combined with favourable market conditions had contributed to the positive movement of the Fund's net assets.



As at 31 March 2014, the net asset value of the Fund was £1.03bn showing an increase of £81.1m from the previous year. In the year the Fund received £88m in income and paid out £51m as benefits and transfers out to other Schemes. The table below shows the financial summary for the past three years.

Financial Summary	2013-14 £'000	2012-13 £'000	2011-12 £'000
Income	87,877	71,620	72,684
Expenditure	(54,096)	(50,357)	(52,155)
Surplus for the year	33,781	21,263	20,529
Revaluation of Investments	47,351	91,213	39,755
Change in Fund Value	81,131	112,476	60,284
<b>Total Fund Value</b>	<b>1,032,163</b>	<b>951,032</b>	<b>838,556</b>

## Financial Statements

	Note	2013/14		2012/13	
		£'000	£'000	£'000	£'000
Contributions And Benefits					
<i>Contributions:</i>					
From employers	7	45,901		38,832	
From employees		8,940		8,207	
Transfers in		3,014		3,148	
Income re equivalent contribution scheme		9		2	
			57,864		50,189
<i>Benefits:</i>					
Pensions		(39,423)		(37,407)	
Commutations and lump sum retirement benefits		(7,486)		(5,966)	
Lump sum death benefits		(744)		(1,346)	
			(47,653)		(44,719)
<i>Leavers</i>					
Refunds to members leaving service		(37)		(12)	
Transfers out – Individuals		(3,322)		(3,115)	
State Scheme Premiums		(3)		(2)	
			(3,362)		(3,129)
Administrative And Other Expenses	8		(904)		(849)
			(51,920)		(48,697)
<b>Net investments from dealings with members</b>			5,944		1,492
Returns on investments					
Income earned on investments	9	30,013		21,431	
Change in market value of investments		47,350		91,213	
Investment management expenses	10	(2,176)		(1,660)	
<b>Net return on investments</b>			75,187		110,984
Net increase in the Fund during the year			81,131		112,476
Opening net assets of the scheme			951,032		838,556
Closing net assets of the scheme			1,032,163		951,032

## Net Asset Statement

	Note	Valuation	2013/14		2012/13	
			£'000	£'000	£'000	£'000
<b>Investment Assets</b>	11					
UK equities (shares) – quoted		Market Value		106,226		95,038
Overseas equities (shares) – quoted		Market Value		24,781		13,154
Cash Deposits				0		10,682
<b>Investment Liabilities</b>						
Cash				(954)		0
<b>Pooled Investment Vehicles</b>						
Pooled Funds		Market Value		13,776		10,244
Unit trusts		Market Value		729,326		691,929
UK unit trusts – property		Market Value		113,125		94,672
Private Equity		Market Value		36,117		36,557
Investment in cash instruments		Market Value		6,557		4,819
				<b>1,028,954</b>		<b>957,095</b>
<b>Current Assets</b>						
Investment income accrued			6,115		300	
Cash at Bank			9,016		922	
				<b>15,131</b>		<b>1,222</b>
<b>Current Liabilities</b>						
Inland Revenue			(9)		(9)	
Due to London Borough of Lambeth			(11,913)		(7,276)	
				<b>(11,922)</b>		<b>(7,285)</b>
<b>Net assets at 31 March</b>				<b>1,032,163</b>		<b>951,032</b>

The financial statements summarise the transactions of the Fund and net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the fund year. This statement should be read in conjunction with the statement by the consulting actuary (on page 33) which details the actuarial position of the Fund including obligations to pay pensions and benefits which falls due after the year end.



**Guy Ware**  
Strategic Director of Enabling

# Notes to the Financial Statements

## 1. Description and Membership of the Fund

The London Borough of Lambeth Pension Fund is a funded, defined benefit scheme. The Fund is administered in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997 and the LGPS (management and Investment of Funds) Regulations 1998. Pension Fund administration is carried out in-house, whilst custodial arrangements and fund investment management is mainly outsourced to external investment managers under the guidance of Lambeth's Pension Fund Investment Panel. The investment portfolio is managed by the fund managers under the Statement of Investment Principles laid down by the Council.

The objective of the Fund is to provide secure future income for Council employees and employees of outside organisations, who have entered into an agreement with Lambeth for pension purposes. The following table provides membership numbers for those organisations as at 31 March 2014.

Employer	Active	Deferred	Pensioner
Administrative Body – London Borough of Lambeth	4,338	7,533	6,448
Scheduled Bodies	456	235	47
Admitted Bodies	12	30	19
Community Admission Bodies	28	34	11
<b>Total</b>	<b>4,834</b>	<b>7,832</b>	<b>6,525</b>

Following the Lord Hutton review of public sector pension schemes a new LGPS scheme was introduced in 01 April 2014. In the new scheme there are nine different contribution banding rates between 5.5% and 7.5% depending on the level of pensionable pay. The calculation of pension payable from that date will be based on career average pay, with the final year's pay being used for prior service.

Membership in the Scheme as at 31 March 2014 was made up of, 4,834 active members (4,527 in 2012/13), 6,525 pensioners (6,369 in 2012/13) and 7,832 deferred pensioners (7,424 in 2012/13).

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position as at 31 March 2014. The accounts have been prepared in accordance with the CIPFA code of practice on local authority accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in the accompanying actuary report.

## 3. Summary of Significant Accounting Policies

### Accruals Concept

Unless otherwise stated, the accounts have been prepared on an accruals basis. The transfer values have been accounted on a cash basis (see transfer values policy below) and the administrative expenses are based on actual spending for the year for pension administration and pension fund administration. The basis of preparation is consistent with last year.

### Valuation of Investments

- Overseas securities and cash are translated into sterling using prevailing rates of exchange at the balance sheet date.
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2014.
- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year.

- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers, or if single priced, at the closing single price.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the Fund and fees and expenses charged to the Fund.

#### **Investment expenses**

Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

#### **Contributions**

Contributions represent the total amount receivable from the various employers participating in the Fund in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at rates determined by the Fund Actuary.

#### **Benefits and Refunds**

Benefits and refunds are accounted for in the year in which they become due for payment.

#### **Transfer Values**

Transfer values are those funds paid to or received from other pension schemes for individuals and relate to periods of previous pensionable employment. Transfer values received and transfer values paid are accounted for on a receipts and payments basis. Final transfer amounts can vary by interest added thereon depending on the date of settlement.

#### **Pension Increases**

Under the Pensions (Increase) Acts, from 1 April 1990, pension increase payments (indexing of pension payments) are to be met from the Pension Fund. Prior to this date they were met from the General Fund.

#### **Administrative Expenses**

Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to staff head count. Salaries of the relevant officers have been charged to the Fund on the basis of actual time spent on investment and related matters and pension administration.

### **4. Critical Judgements in Applying Accounting Policies**

#### **Unquoted Private Equity Investments**

The private equity investments are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidance set out by the British Venture Capital Association. The value of unquoted private equity at 31 March 2014 was £36.1m (2012/13 £36.6m).

#### **Pension Fund Liability**

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidance and in accordance with IAS 26. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions. Paragraph 6.5.2.9 of the IFRS Code - IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed. The information is included in note No 16.



## 5. Assumption made about the future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £134.5m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £30m, and a one year increase in assumed life expectancy would increase the liability by approximately £46.5m.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publically listed and as such there is a degree of estimation involved in the valuation. The valuation shown as at 31 March 2014 is £36.1m.	The total (called) private equity investment in the financial statement is £36.1m. There is a risk that this investment may be under-or overstated in the accounts.
<b>Hedge fund of funds</b>	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £101.9m. There is a risk that the investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% in respect of the net asset values on which the hedge funds of funds valuation is based. This equates to a tolerance of +/- £5.1m.

## 6. Events after the Balance Sheet Date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7. Total Contributions

a) Contributions from Employers	2013/14 £'000	2012/13 £'000
Normal	24,136	21,747
Deficit Funding	21,765	17,085
<b>Total</b>	<b>45,901</b>	<b>38,832</b>

b) Total Contributions Received and Benefits Paid (2013/14)	Administering Body (Lambeth) £'000	Scheduled Bodies £'000	Admitted Bodies £'000
Contributions received	50,980	3,467	394
Benefits paid	47,345	211	97

## 8. Administrative Expenses

	2013/14 £'000	2012/13 £'000
Pensions Administration	493	498
Pension Fund Administration	239	202
Additional Central Overhead Recharges	172	149
<b>Total</b>	<b>904</b>	<b>849</b>

## 9. Investment Income

	2013/14 £'000	2012/13 £'000
Interest Income	67	247
Dividends and Distributions	29,724	20,823
Receipts and disbursements	222	361
<b>Total</b>	<b>30,013</b>	<b>21,431</b>

## 10. Investment expenses

	2013/14 £'000	2012/13 £'000
Management Fees	2,012	1,595
Other	164	65
<b>Total</b>	<b>2,176</b>	<b>1,660</b>

The total management expenses incurred for the year was £6m which only £2.2m was actually remitted; the remainder was deducted in the daily pricing of the individual portfolios.

## 11. Investments

The table below shows a detailed breakdown of the investments held by the Pension Fund at the year end.

	£'000	2013/14 £'000	2012/13 £'000	£'000
<b>UK EQUITIES</b>				
Oil & Gas	24,547		12,818	
Basic Materials	1,846		4,353	
Construction, Industrial Goods & Services	9,719		11,220	
Consumer Goods	993		1,926	
Health Care	15,838		6,354	
Consumer Services	37,489		35,517	
Financials	14,631		20,252	
Information Technology	1,163		2,598	
<b>Total UK Equities</b>		106,226		95,038
<b>POOLED INVESTMENT VEHICLES</b>				
Pooled Funds	13,776		10,244	
Unit Trusts	729,326		691,929	
<b>Total Pooled Investment Vehicles</b>		743,102		702,173
<b>OVERSEAS EQUITIES</b>				
United States	3,523		5,535	
Europe	19,873		6,710	
Japan	678		909	
Emerging Market and Other	707		0	
<b>Total Overseas Equities</b>		24,781		13,154
UK Unit Trusts - Property		113,125		94,672
Private Equity		36,117		36,557
Cash Instruments		6,557		4,819
Cash Deposits		(954)		10,682
<b>Total Value of Investments</b>		1,028,954		957,095

## 12a Reconciliation of movements in investments and derivatives

Investment Managers	01-Apr-13	Purchases	Sales	Realised gain/(loss)	Unrealised gain/(loss)	Un analysed Movement	31-Mar-14	Total Movement
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adams Street	36,557	2,623	0	0	(3,063)	0	36,117	(440)
Insight	279,787	9,175	(161)	0	(1,425)	0	287,376	7,589
Baillie Gifford	118,856	0	0	0	15,180	0	134,036	15,180
Blue Crest	28,254	0	0	0	504	0	28,758	504
Invesco	93,255	18,529	0	0	(245)	0	111,539	18,284
Majedie	123,255	103,203	(97,500)	16,041	5,007	0	150,006	26,751
MFS	124,715	204	0	0	9,972	0	134,891	10,176
PAAMCO	65,742	0	0	0	7,374	0	73,116	7,374
Principal	32,843	71	0	0	(4,889)	0	28,025	(4,818)
RREEF	1,417	0	0	0	169	0	1,586	169
Standard Life	41,732	0	0	0	1,395	0	43,127	1,395
Cash	10,682	0	0	0		(10,305)	377	(10,305)
<b>TOTAL</b>	<b>957,095</b>	<b>133,805</b>	<b>(97,661)</b>	<b>16,041</b>	<b>29,979</b>	<b>(10,305)</b>	<b>1,028,954</b>	<b>71,859</b>

Transaction costs are included in the cost of purchases and in sales proceeds. These include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees. Transactions cost incurred during the year total £381k (£345k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Investment Managers	01-Apr-12	Purchases	Sales	Realised gain/(loss)	Unrealised gain/(loss)	Un analysed Movement	31-Mar-13	Total Movement
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adams Street	32,522	4,643	0	0	(608)	0	36,557	4,035
Insight	237,020	21,653	(3,879)	0	24,993	0	279,787	42,767
Baillie Gifford	99,399	0	0	0	19,457	0	118,856	19,457
Blue Crest	23,238	3,200	0	0	1,816	0	28,254	5,016
Invesco	88,436	4,674	0	0	145	0	93,255	4,819
Majedie	97,481	71,225	(62,800)	6,343	11,006	0	123,255	25,774
MFS	100,365	136	0	0	24,214	0	124,715	24,350
PAAMCO	53,415	7,400	0	0	4,927	0	65,742	12,327
Principal	35,707	316	(1)	0	(3,179)	0	32,843	(2,864)
RREEF	1,569	0	(9)	0	(143)	0	1,417	(152)
Standard Life	39,490	0	0	0	2,242	0	41,732	2,242
Cash	29,538	0	0	0	0	(18,856)	10,682	(18,856)
<b>TOTAL</b>	<b>838,180</b>	<b>113,247</b>	<b>(66,689)</b>	<b>6,343</b>	<b>84,870</b>	<b>(18,856)</b>	<b>957,095</b>	<b>118,915</b>

## 12b Analysis of Investments

	UK Equities & Pooled Funds	UK Unit Trusts- Property	Overseas Equities	Private Equity	Unit trusts	Cash Instruments	Cash	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adam Street	0	0	0	36,117	0	0	0	36,117
Baillie Gifford	0	0	0	0	134,036	0	0	134,036
Blue Crest	0	0	0	0	28,758	0	0	28,758
Invesco	0	111,539	0	0	0	0	0	111,539
Insight	0	0	0	0	287,374	0	2	287,376
Majedie	120,001	0	24,781	0	0	6,557	(1,333)	150,006
MFS	0	0	0	0	134,891	0	0	134,891
PAAMCO	0	0	0	0	73,116	0	0	73,116
Principal	0	0	0	0	28,025	0	0	28,025
RREEF	0	1,586	0	0	0	0	0	1,586
Standard Life	0	0	0	0	43,127	0	0	43,127
State Street	0	0	0	0	0	0	377	377
<b>TOTAL</b>	<b>120,001</b>	<b>113,125</b>	<b>24,781</b>	<b>36,117</b>	<b>729,327</b>	<b>6,557</b>	<b>(954)</b>	<b>1,028,954</b>

As at 31 March 2014, the total market value of the investments was £1,029m (£957.1m as at 31 March 2013), of which 14.6% was managed by Majedie Asset Management in a segregated portfolio, and 81.9% in unit trust vehicles by various managers.

On the remainder £36.1m (3.5%) invested in Private Equity with Adams Street Partners. Private Equity investment is valued at the latest available estimated valuation as at 31 March 2014. Overall, the Fund has committed 5% of the market value of the Pension Fund to be invested in Private Equity.

## 13. Financial Instruments

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

## 13a. Classification of financial instruments

	2013/14			2012/13		
	Designated as fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost	Designated as fair value through profit & loss	Loans & Receivables	Financial Liabilities at amortised cost
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>						
Equities	131,007	0	0	108,192	0	0
Pooled Investments	743,103	0	0	691,929	0	0
Pooled property Investments	113,125	0	0	94,672	0	0
Private Equity	36,117	0	0	36,557	0	0
Cash and cash Instruments	0	14,619	0	0	16,424	0
Debtors	0	6,115	0	0	300	0
	<b>1,023,352</b>	<b>20,734</b>	<b>0</b>	<b>931,350</b>	<b>16,724</b>	<b>0</b>
<b>Financial Liabilities</b>						
Creditors	0	0	(11,922)	0	0	(7,285)
<b>Total</b>	<b>1,023,352</b>	<b>20,734</b>	<b>(11,922)</b>	<b>941,593</b>	<b>16,724</b>	<b>(7,285)</b>

## 13b. Net gain and losses on financial instruments

Fair value through profit and loss on financial assets was £47.3m (£91.2m 2012/13)

### 13c. Fair Value of financial instruments and liabilities

There is no difference between the fair value and carrying value of the financial instruments and liabilities.

### 13d. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as 31 March 2014	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss				
<b>Equity</b>	151,339	0	0	151,339
<b>Unit Trust</b>	627,452	0	101,874	729,326
<b>Property- Unit trust</b>	0	113,125	0	113,125
<b>Private Equity</b>	0	0	36,117	36,117
	<b>778,791</b>	<b>113,125</b>	<b>137,991</b>	<b>1,029,907</b>

### 14. Nature and extent of risks arising from financial instruments

#### Risk and Risk Management

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

#### 14a. (1) Market risk and the sensitivity analysis

Market risk is the risk from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spread. The Fund is exposed to market risk from investments activities, particularly through its equity holdings. Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisor, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

Asset Type	Value as at 31 Mar 14 £'000	Percentage Change %	Value on Increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	14,620	0	14,620	14,620
<b>Investment Portfolio assets:</b>				
UK Equities	120,001	12.26%	134,713	105,289
Global Equities- Unit Trust	293,709	11.22%	326,663	260,755
Property - Unit Trust	113,125	2.74%	116,225	110,025
Active currency - Unit Trust	28,025	6.77%	29,922	26,128
Diversified Growth - Unit Trust	43,127	4.43%	45,038	41,216
Hedge Fund - Unit Trust	101,874	4.48%	106,438	97,310
Corporate Bond - Unit Trust	287,373	5.31%	302,633	272,113
Private Equity	36,117	5.28%	38,024	34,210
Investment income due	6,115	0	6,115	6,115
Amount payable to Inland revenue	(9)	0	(9)	(9)
Amount payable to LB Lambeth	(11,913)	0	(11,913)	(11,913)
<b>Total assets available to pay benefits</b>	<b>1,032,164</b>		<b>1,108,468</b>	<b>955,860</b>

Asset Type	Value as at 31 Mar 13 £'000	Percentage Change %	value on Increase £'000	value on decrease £'000
<b>Cash and cash equivalents</b>	16,423	0	16,423	16,423
<b>Investment Portfolio assets:</b>				
UK Equities	118,436	13.00%	133,833	103,039
Global Equities- Unit Trust	243,571	11.90%	272,556	214,586
Property - Unit Trust	94,672	1.80%	96,376	92,968
Active currency - Unit Trust	32,843	6.20%	34,879	30,807
Diversified Growth - Unit Trust	41,732	4.50%	43,610	39,854
Hedge Fund - Unit Trust	93,996	4.10%	97,850	90,142
Corporate Bond - Unit Trust	279,787	5.20%	294,336	265,238
Private Equity	36,557	5.20%	38,458	34,656
Investment income due	300	0	300	300
Amount payable to Inland revenue	(9)	0	(9)	(9)
Amount payable to LB Lambeth	(7,276)	0	(7,276)	(7,276)
<b>Total assets available to pay benefits</b>	<b>951,032</b>		<b>1,021,336</b>	<b>880,728</b>

#### 14a (2) Interest rate risk and the sensitivity analysis

The Fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates movement and assessment of the actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2014 is set out below. This disclosure presents interest rate risk based on the underlying financial asset at fair value.

Asset Type	Carrying amount as at 31 Mar 14 £'000	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
Cash Balances	8,062	81	(81)
Cash Instruments	6,557	66	(66)
<b>Total change in assets value</b>	<b>14,619</b>	<b>147</b>	<b>(147)</b>

#### 14a (3) Currency risk and the sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisers the Fund considers the likely volatility associated with foreign exchange rate movements are as below. This analysis assumes that all other variables, in particular interest rates remain constant. Strengthening or weakening of the pound, as below, against the various currencies in which the Fund holds investments, would increase or decrease the nets assets available to pay benefits as follows.

Asset Type	Carrying amount as at 31 March 2014 £'000	Percentage Change %	Net assets available to pay benefits	
			Increase £'000	Decrease £'000
Global Equities	293,709	5.67%	310,362	277,055
Private Equity	36,117	8.07%	39,032	33,202
Property	111,542	6.31%	118,580	104,503
<b>Total change in assets value</b>	<b>441,368</b>		<b>467,974</b>	<b>414,760</b>

#### 14b. Credit risk

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury managements arrangements as at 31 March 2014 is as follows:-

Summary	Rating	31-Mar-14 £'000	31-Mar-13 £'000
<b>Bank deposits account</b>			
Royal Bank of Scotland	A	9,016	922

#### 14c. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The fund defines liquid assets as assets that can be converted to cash within three months. As at 31 March 2014 the value of illiquidity asset was £37.7m, which represented 3.7% of the total fund assets.

#### 15. Funding Arrangements

In line with the local government pension scheme (administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- To ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pensions' liabilities as they fall due for payment.
- To ensure that employer contribution rates are as stable as possible.
- To minimise long term cost to the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risks and return.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The valuation method used was the Projected Unit Method. The following financial assumptions formed the basis of the valuation:

- Rate of price inflation at 2.5% per annum.
- Rate of future pension increases at 2.5% per annum.
- Rate of future pay increases at 4.3% per annum.\*
- Discount rate at 4.6%.

(\*plus an allowance for promotional pay increases)

At 31 March 2013, the scheme's net assets were valued at £951m and the actuarial value of the assets was sufficient to cover 72.6% of the benefits that had accrued to members. This is after allowing for expected future increases in earnings.

In order to achieve 100% coverage by the end of the average expected working lifetime under the stabilisation method for current contributors, an employer's contribution rate of 16.8% per annum of payroll is paid into the Fund. From April 2014 an additional sum of £20m is also payable annually based on the assumption that the deficit is funded over 20 years.

#### 16. Actuarial Present Value of Promised Retirement Benefits

IAS26 Accounting and Reporting by Retirement Benefit Plans imposes a requirement on administering authorities to disclose the actuarial present value of promised retirement benefits. This has been calculated in accordance with the defined benefit obligation under IAS 19 Employee Benefits. The valuation of liabilities as at 31 March 2013 has been

carried out using assumptions that are in line with IAS 19 as opposed to the Pension Fund's funding assumptions. These are as follows:

Rate of inflation	2.8%
Rate of increase in salaries	4.6%
Rate of increase in pensions	2.8%
Rate for discounting scheme liabilities	4.3%

Longevity Assumptions	Males	Females
Current pensioners	21.7 years	24.0 years
Future pensioners*	24.3 years	26.6 years

\*Future pensioners are assumed to be currently aged 45

### Commutation Assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Year ended	31-Mar-14 (£m)	31-Mar-13 (£m)
Present value of promised retirement benefits	1,509	1,510

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The actuary has estimated that the liability at 31 March 2014 comprises £457m in respect of employee members, £440m in respect of deferred pensioners and £612m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

### 17. Additional Voluntary Contribution (AVC)

According to regulation 5(2) (C) of the Pension Scheme (Management and Investment of Funds) Regulation 1998, Additional Voluntary Contributions are not included in the Pension Fund Accounts. AVCs are invested separately and the table below shows the details, the contributions received and the value of the investments as at 31 March 2014.

Name	Total contribution £'000	Value of fund £'000
Prudential	174	1,059
Equitable Life	7	453
Clerical Medical	19	262
<b>Total</b>	<b>200</b>	<b>1,774</b>

### 18. Contingent Liabilities

Outstanding capital commitment (investments) at 31 March 2014 totalled £6.9m (31 March 2013 £10.4m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity asset class of the portfolio. The amounts called by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

### 19. Contingent Assets

Admitted body employers in Lambeth Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

### 20. Impairment Losses

There is no recognised impairment loss during the financial year.



# Funding Strategy Statement

The Funding Strategy Statement has been prepared by the Administering Authority in collaboration with the Fund's actuary Hymans Robertson, and after consultation with the Fund's employers and investment adviser. The Funding Strategy Statement was reviewed and updated in May 2014 following the 2013 triennial valuation. This statement covers the Fund and its policies in respect of the following areas:

- Purpose of the Pension Fund.
- Aims of the funding policy.
- Solvency issues and target funding levels.
- Identification of risks and counter measures.
- Links to investment policy set out in the Statement of Investment Principles.

The full version of the Funding Strategy Statement is attached as appendix 2 to this report and also available on the Pension Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

## Statement of Investment Principles

Lambeth Council is responsible for administering the Lambeth Pension Fund under the Local Government Pension Scheme (LGPS) Regulations.

The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Pension Fund Investment Panel subject to approval by Corporate Committee

The statement was made in accordance with regulation 5 of the Local Government Pension Scheme Regulation 1999. In preparing this statement, the Panel has taken professional advice. The statement is subject to periodic review and it was last reviewed and updated in April 2014. The statement covers:-

- Funding objective.
- Investment objectives and ways to achieve.
- Social responsible investment.
- Exercise of voting rights.
- Asset allocation by fund manager.

The full version of the Statement of Investment Principles is attached as appendix 1 to this report and also available on the Pension Fund's website at [www.lambeth.gov.uk/pensions](http://www.lambeth.gov.uk/pensions).

# Compliance Statement

The purpose of this Compliance Statement is primarily to disclose some additional information required by law but which is not considered to be of such significance to Members.

## **Taxation**

The Fund is approved under the Income and Corporation Taxes Act 1988. Although exempt from UK income and capital gains taxes, the Fund is unable to recover the tax credit on UK dividends.

## **Statement of Investment Principles**

In accordance with the Pension Act 1995, the Fund has produced a Statement of Investment Principles which is reviewed at intervals of not more than three years; copies are available on request or can be accessed from the Fund website.

## **Transfer Values**

Transfer values for Members leaving pensionable service during the year were calculated in accordance with the Pension Schemes Act 1993, (as amended by the Pensions Act 1995). No transfer values were reduced because of under-funding. The Rules of the Fund have always provided that deferred pensioners may transfer the value of their benefits to another approved scheme at any time before any benefits have been paid from the Fund.

## **Pension Increases**

Pensions are increased in accordance with the pension increase (Review) Order 2009 Statutory Instrument 2009 No 692.

# London Borough of Lambeth Pension Fund ("the Fund") Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

## Description of Funding Policy

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 80% chance that the Fund will return to full funding over 20 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £951 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £359 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Full details of the methods and assumptions used are described in the valuation report dated 12 March 2014.

## Method

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

## Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	24.0 years
Future Pensioners*	24.3 years	26.6 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Lambeth, the Administering Authority to the Fund.

## Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have slightly exceeded expectations meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Stuart Reilly FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP

20 Waterloo Street  
Glasgow

# Statement of Responsibilities

## 1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs (usually that officer is the S151 officer who in the Councils case is the Strategic Director of Enabling );
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

## 2. The Strategic Director of Enabling Responsibilities

The Director of Strategic Enabling is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Government Accounting.

In preparing this statement of accounts, the Strategic Director of Enabling has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Take reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the Lambeth Pension Fund as at 31 March 2014 and its income and expenditure for the year then ended.



**Guy Ware**  
**Strategic Director of Enabling**

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

## **Opinion on the pension fund accounting statements**

We have audited the pension fund financial statements for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Lambeth Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Strategic Director of Enabling and auditor**

As explained more fully in the Statement of the Strategic Director of Enabling Responsibilities, the Strategic Director of Enabling is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Enabling; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## ***Opinion on financial statements***

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year.; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Opinion on other matters**

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

### **Matters on which we report by exception**

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

A handwritten signature in blue ink, appearing to read 'Susan Barratt', with a stylized flourish at the end.

Susan Barratt BA ACA  
For and on behalf of Deloitte LLP  
Appointed Auditor  
Reading, United Kingdom  
27 November 2014

# Lambeth Pension Fund



## Statement of Investment Principles



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

### **Statement of Investment Principles**

#### ***1.0 INTRODUCTION***

This is the Statement of Investment Principles adopted by the London Borough of Lambeth, as administering authority of the London Borough of Lambeth Pension Fund in relation to the investment of assets. The Statement is made in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. It is subject to periodic review by the Council’s Pension Fund Investment Panel (“The Panel”). The attached appendices form an integral part of, and should be read in conjunction with, this Statement.

In preparing this statement, the Panel has taken professional investment advice from Mercer Limited. The Panel has also consulted with the constituent employers, members and trades unions. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.

Investments are monitored on a regular basis by the Panel, acting on the delegated authority of the Council. Advice is received, as required, from professional advisers.

The Panel has agreed an asset allocation benchmark, a performance target and various controls on the Fund’s investments. These reflect the Panel’s views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk. The benchmark reflects the position following the Actuarial Valuation of the Fund as at 31 March 2013. It is intended that strategy will be revised at least every three years, following actuarial valuation of the Fund.

#### ***2.0 OBJECTIVES***

##### **Primary Objective**

The primary objective of the Fund is as follows:

To provide for members pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

##### **Funding Objectives - Ongoing Plan**

To fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

The assumptions used for this test, corresponding with the assumptions used in the latest Actuarial Valuation, are shown in Appendix A. This position will be reviewed at least at each triennial Actuarial Valuation. The Panel will be advised of any material changes to the Fund during the inter-valuation period.

### **3.0 INVESTMENT OBJECTIVES**

To invest in assets so as to target a rate of return consistent with the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2013 (the discount rate to value the liabilities was 4.6% p.a. as at 31 March 2013), with the weighting between constituent asset classes determined so as to reduce the expected volatility of the funding level going forward.

To achieve these objectives the following have been agreed.

#### **Choosing Investments**

The Panel has adopted a specialist approach to investment management and will ensure that one or more investment managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) 2009 to manage the assets of the Fund in line with the triennial review of strategy.

The Panel, after seeking appropriate investment advice, may give specific directions as to the strategic asset allocation and will ensure the suitability of assets in relation to the needs of the Fund.

The investment managers will be given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

The managers appointed to manage the Fund's assets are summarised in Appendix D.

#### **Kinds of investments to be held**

The investment managers may invest in UK and overseas investments including equities (quoted and private), fixed and index linked government and corporate bonds, other bond assets (including the use of liability driven investment), cash, property and pooled funds.

#### **Balance between different kinds of investments**

A management agreement is in place for each Investment Manager which sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions, as determined by the Panel.

The Panel has agreed a benchmark, which provides an efficient balance between risk and return, in the light of the liability profile and funding level of the Fund.

## **Risk**

There are a number of risks to which the Fund is exposed and the policy of the Panel on these risks is briefly described here. A fuller statement of risk considerations is included in the FSS and the Pension Fund Accounts.

The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. This is a yield based on market returns on UK Government gilt stocks and other investments which reflects a market consistent discount rate for the profile and duration of the Fund's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a. The Panel recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields, as well as producing more short-term volatility in the funding position. The Panel has taken advice on the matter and (in light of the objectives) considered carefully the implications of adopting different levels of risk.

While the risk introduced through investing a significant proportion of the Fund's assets in equities could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is acceptable in view of the potential benefits of the expected extra returns. The Panel has diversified the mix of asset significantly however and should there be a material change in the Fund's circumstances, the Panel will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

Risk is also controlled by (at least) quarterly reviews of past performance and future plans of each fund manager, and obtaining the advice of the investment consultant. The Panel also determines the degree of risk taken by the investment fund managers by setting performance targets and monitoring the risk levels taken by each manager in order to achieve that target.

The Panel recognises that the use of active managers introduces a risk of underperformance. However, they believe that this risk is outweighed by the potential gains from successful active management.

Investment Managers will seek to achieve a balance of income and capital growth and manage the Portfolio in such a way as to achieve maximum total return consistent with the avoidance of undue risk. The Panel will agree particular performance targets with each of the Investment Managers from time to time.

## **Realisation of investments**

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Relatively illiquid investments, such as Property, Hedge Funds and Private Equity, currently make up a manageable proportion of the Fund's assets.

## **Additional Voluntary Contributions (AVC's)**

Members have the opportunity to invest in AVC funds as given in Appendix H.

### **4.0 OTHER ISSUES**

## **Governance and Exercise of Voting Rights Policy**

The London Borough of Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance contributes to long-term value for our clients. These high-level Policies set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.

Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies. As responsible shareholders, the London Borough of Lambeth Pension Fund will endeavour to vote (via our agents) on shareholder resolutions in accordance with these Policies. We will be transparent in explaining the reasons for voting decisions.

As companies vary in size and complexity, these Policies must allow for some flexibility, with due consideration to the particular circumstances of each company. Moreover, corporate governance requirements may be expressed differently in different markets; these Policies will be applied in a way that reflects an understanding of local and international good practice.

We will generally ask our agents to vote AGAINST shareholder resolutions that fail to uphold these Policies:

### **1. Board of Directors and Board Committees**

The role of the Board of directors is to foster the long-term success of the company in the interests of shareholders. As the Board is ultimately responsible for the good management of the company, its composition is crucial.

While the structure and operation of the Board differ between companies and jurisdictions, several key principles should guide Board composition. First, the roles of Chair and CEO should generally be separate. Second, the Board should have an appropriate level of independence from management. A Board composed of a majority of independent non-executive directors can help to ensure independence. Third, Board members should be competent and effective, and should have to stand for re-election at regular intervals. Fourth, Companies should work towards addressing gender imbalance on their board of directors and should have specific target dates to achieve at least 30% female representation.

Audit, Remuneration and Nomination Committees are essential for the effective governance of companies. To promote independence from management on these key issues, these Committees should be composed entirely of independent non-executive directors.

### **2. Management Remuneration**

An executive's total remuneration package should align the individual's interests with the objectives of the company and the interests of shareholders. While levels of pay should be

sufficient to attract, retain and motivate management of the quality required to run the company successfully, excessive compensation reduces shareholder value.

A significant proportion of executive remuneration should be related to performance targets (both individual and corporate), and should be reviewed regularly. Non-performance or under-performance should not be rewarded. Performance targets should generally be disclosed in the Remuneration Report (unless there are compelling commercial reasons for confidentiality) and should be structured as a sliding scale rather than as a single performance target. Sustained improvements in financial performance can be encouraged through the use of longer term performance measurement periods.

### **3. Accountability and Audit Process**

The audit process is critical to verifying the financial performance of a company, and to ensuring that management has effective internal control and financial reporting systems. Independent and effective external auditors are necessary for good corporate governance. Auditor independence may be impaired if the same audit firm has audited the company for a long time, or if the auditor firm earns more fees from non-audit services than from audit services.

Whilst there is no limit on the length of an auditors' appointment, there is a consensus among investors that periodic tendering (annually) of the audit service helps to maintain auditor objectivity. Companies are therefore encouraged to consider submitting the audit function to periodic tender and disclose their policy on this matter, including when the audit was last subject to tender.

The Institute of Chartered Accountants in England and Wales (ICAEW) recommends the internal rotation of audit engagement partners within an audit firm every five years for listed companies (ten years for non-listed companies). The Combined Code recommends the formation of an audit committee made up of independent non-executive directors, which should be responsible for reviewing and monitoring the work of the auditors and making recommendations to the board on the appointment, reappointment or removal of the auditors. Transparency helps to facilitate good auditing processes: audit fees should be clear and new non-auditing work should be put to tender rather than being bundled with audit services.

The London Borough of Lambeth Pension Fund encourages improved disclosure on the auditor reselection decision and the disclosure of any contractual obligations to appoint audit firms, in the interests of making the criteria used for auditor selection and evaluation as explicit as possible.

### **4. Capital Structure and Shareholder Rights**

Existing shareholders collectively own the company and have a right to maintain their interest without excessive dilution. New share issues should be limited, and should occur as a part of corporate strategy in the interests of long-term performance. Companies should only repurchase shares in the market when it is commercially advantageous to do so, and with shareholder approval. Share buybacks should generally not exceed more than 10% of issued ordinary share capital and any share buyback needs to be subject to a transparent stress test that shows the company can operate on a reduced capital base and afford the cash outflow.

## 5. Reporting

The Board should establish formal and transparent arrangements for assessing financial and other reporting, risk management and internal control procedures. The Board's statement of internal controls should provide shareholders with a clear understanding of the company's internal control and risk management processes. Unless it provides an adequate justification otherwise, the Board's statement at a minimum should include:

- a description of how risk is managed on an ongoing basis;
- an acknowledgment of Board responsibility for internal control and risk management;
- description of the review procedure for the processes;
- and a disclosure of any material joint ventures or associates not covered in the statement.

## 6. Responsible Investment

The Panel believe that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund's beneficiaries and aligned with fiduciary duty.

The Panel believe that environmental social and corporate governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process.

The Panel have given their investment managers full discretion when evaluating ESG and ethical issues and in exercising rights and stewardship obligations relating to the Fund's investments taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Panel encourage their managers who are regulated in the UK to comply with the UK Stewardship Code. The Panel monitor its UK regulated managers' adherence to the UK Stewardship Code on a periodic basis.

The Fund's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Panel.

In particular, where the manager believes that these issues will impact on performance or risk, the manager will be expected to take them into account in their decision making. The Panel reviews these policies through a review of stewardship compliance. The Panel will, where it is deemed necessary, engage the managers in discussion on their policies. It will however be made clear to the managers that any decisions taken by the managers should be in the best long terms financial interest of the Fund and its members. For pooled mandates, the Panel will take into account the policies of the managers at the time of selection.

Reporting on voting and engagement activities should be provided to the Panel by the managers on a regular basis.

The Fund is a member of the Local Authority Pension Fund Forum (currently it actively participates), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

## **5.0 EXPERT ADVICE**

Hymans Robertson is the Fund's actuarial adviser.

Mercer Limited is the Fund's investment adviser.

The Pension Fund Committee also receives advice from the Section 151 Officer.

## **6.0 COMPLIANCE**

In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulation 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

The current guidance relates to that issued by the CIPFA Pension Panel – Principles for Investment Decision Making and disclosure in the Local Government Pension Scheme in the United Kingdom – A guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds. The principles revolve around Pension Fund investment, Fund governance, disclosure and consultation and have been set at a relatively high level to six principles giving flexibility whilst at the same time ensuring that Local Authority Funds have a common set of principles and guidance on which to operate. These principles have replaced the 10 Myners Principles published in 2001.

The set of six Myners Principles as they apply to Local Authority Pension Funds are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

Compliance against these principles is detailed in the Annual Report and Accounts.

## APPENDICES

### A. Main Actuarial Assumptions as at 31 March 2013

The Actuarial Valuation as at 31 March 2013 was carried out using a projected unit method. The financial assumptions used in the valuation were as summarised below.

	<b>% per annum Nominal</b>	<b>% per annum Real</b>
Discount Rate - Gilt-Based	3.0%	0.5%
Funding Basis - (Assumed to be 1.6% above the yield on fixed interest Government bonds)	4.6%	2.1%
Increases in pay (excl. increments)	4.5%	2.0%
<b>CPI Inflation</b>	<b>2.5%</b>	<b>-</b>

### B. Liability Mix

<b>Liabilities</b>	<b>% of Total Liabilities</b>
Employee members	26.4
Deferred pensioners	28.7
Pensioners	44.9
<b>Total liabilities</b>	<b>100.0</b>
Deficit	(26.4)
<b>Total fund (at actuarial value)</b>	<b>73.6</b>



### C. Asset Mix

	<b>Actual Fund %</b>
UK Equities	11.0
Global Equities	27.0
Property	12.0
Diversified Growth	5.0
Hedge Funds (Fund of Funds)	10.0
Private Equity	5.0
<b>Growth Assets</b>	<b>70.0</b>
UK Bonds	30.0
<b>Matching Assets</b>	<b>30.0</b>

### D. Investment Managers and Benchmarks (as at 31 March 2013)

<b>Mandate</b>	<b>Manager</b>	<b>Portfolio Benchmark</b>	<b>Performance Target %</b>	<b>Fund Benchmark Allocation</b>
Global Equity	Baillie Gifford	MSCI AC World Index	2% - 3% p.a. (gross of fees)	13.5
Global Equity	MFS	MSCI World (NDR) Index	+2% p.a. (gross of fees)	13.5
UK Equity	Majedie	FTSE All-Share Index	+2% p.a. (net of fees)	11.0
Hedge Funds (Fund of Funds)	PAAMCO	3 Month Sterling LIBOR	+5% p.a. (net of fees)	7.0
Hedge Funds (Fund of Funds)	BlueCrest	3 Month Sterling LIBOR	Absolute return of 10%-15% p.a. (net of fees)	3.0
Property	Invesco	3 Month Sterling LIBOR	Absolute return of 8%-12% p.a. (net of fees)	12.0
Property	RREEF	IPD Property Index	+0.0	0
Diversified Growth	Standard Life	6 Month Sterling LIBOR	+5% p.a. (gross of fees)	5.0
Private Equity	Adam Street	Thomson Reuters Private Equity Fund Performance Survey	3% - 5% p.a. (gross of fees)	5.0
Bonds	Insight	Markit iBoxx Sterling Non-Gilts Index	To outperform the benchmark	30.0

## E. Investment Manager Fees

Mandate	Manager	Portfolio Benchmark
Insight	Bonds	0.17% p.a.
MFS	Global Equity	0.65% p.a. on the first £25.0m 0.50% p.a. on the next £25.0m 0.45% p.a. on the next £50.0m 0.40% p.a. thereafter
Majedie	UK Equity	0.70% p.a. Subject to a minimum fee of £40,000 p.a.
Baillie Gifford	Global Equity	0.65% p.a. on the first £30.0m 0.50% p.a. on the next £30.0m 0.35% p.a. thereafter
Invesco	Property	0.75% p.a. Plus performance related fee of 20% of value added over the benchmark
PAAMCO	Hedge Funds (Fund of Funds)	1.00% p.a.
Standard Life	Diversified Growth	0.7% p.a.
BlueCrest	Hedge Funds (Fund of Funds)	2.00% p.a. Plus performance related fee of 20% p.a. (based on net of fees absolute return, with high watermark, charged annually)
RREEF	Property	0.75% p.a.

## F. Investment Asset Class Bandwidths

		Band Widths
Return seeking		
- Equities	38%	+/- 7%
- Absolute return	15%	+/- 7%
- Private equity	5%	+/- 5%
- Property	12%	+/- 5%
- Cash	0%	+/- 5%
Matching		
- Bonds	30%	+/- 7%

## **G. Stock lending and Custodian**

Stock lending is only permitted subject to specific approval by the Panel.

The custodian, [State Street], is responsible for the settlement of all investment transactions, collection of income, tax reclaims, exercising corporate administration, cash management and accounting information and reconciliation with the Pension Fund Managers valuation.

## **H. AVC Arrangements**

The options for members' AVCs are set out below, together with details of the principles governing the range of investment vehicles offered. Members can choose to switch AVC's between options available to them from time to time, subject to the terms and conditions of each vehicle. At retirement, the accumulated value of a member's AVC is used to purchase an annuity on the open market or buy additional service.

<b>Provider</b>	<b>Vehicle</b>
Prudential	With Profits Managed Fund
Clerical Medical	With Profits Managed Fund

The objective of the managed fund is to provide returns on members' contributions which at least keep pace with inflation.

# Lambeth Pension Fund



## Funding Strategy Statement

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## Funding Strategy Statement

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# 1 Introduction

## 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Lambeth Pension Fund ("the Fund"), which is administered by London Borough of Lambeth Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 28 February 2014.

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

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

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

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

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

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

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

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

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

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

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

## LONDON BOROUGH OF LAMBETH PENSION FUND

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

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

This depends who you are:

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

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

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

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

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

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

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

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

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

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

If you have any other queries please contact Andrien Meyers, Treasury and Pensions Manager, in the first instance at e-mail address [ameyers@lambeth.gov.uk](mailto:ameyers@lambeth.gov.uk) or on telephone number 020 7926 7086.



## 2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

### 2.2 How is a deficit (or surplus) calculated?

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

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

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

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 12 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

### 2.4 What else might affect the employer’s contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in [Section 3](#).

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

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

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

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

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before.

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

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

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

**Admission bodies** - Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

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### 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

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### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies		Transferee Admission Bodies
Sub-type	Local Authorities	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )		Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Future service rate	Projected Unit Credit approach (see <a href="#">Appendix D – D.2</a> )			Attained Age approach (see <a href="#">Appendix D – D.2</a> )	Projected Unit Credit approach (see <a href="#">Appendix D – D.2</a> )
Stabilised rate?	Yes - see <a href="#">Note (b)</a>	No			
Maximum deficit recovery period – Note (c)	20 years	Future working lifetime of employees			Shorter of: Future working lifetime of employees, and Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount		% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes – Note (e)	Covered by stabilisation arrangement	Phased over a period to be agreed with the Administering Authority			None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (j)</a> .		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (i)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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### **Note (a)** (Basis for CABs)

In the circumstances where:

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

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

### **Note (b)** (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Local Authority
------------------	-----------------

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<b>Base cont rate</b>	Actual 2013/14
<b>Max cont increase</b>	+£1m
<b>Max cont decrease</b>	-£1m

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

### **Note (c)** (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 12 years.

### **Note (d)** (Deficit Recovery Payments)

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

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### **Note (e)** (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

### **Note (f)** (Regular Reviews)

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

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

### **Note (g)** (New Academy employers)

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



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- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

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

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

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

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

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

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

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

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

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

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

### **Note (j)** (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund;  
or

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- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

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

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

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

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

### 3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### 3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

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

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

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

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before

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attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

### 3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### 3.8 Ill health insurance

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

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

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

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(i\)](#)) and consequently have no further obligation to the Fund.

Thereafter it is expected that one of two situations will eventually arise:

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

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

### **3.10 Policies on bulk transfers**

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4 Funding strategy and links to investment strategy

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

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

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

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

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

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

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

### **4.5 Does the Fund monitor its overall funding position?**

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



## Appendix A – Regulatory framework

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

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

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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

### A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to all participating employers on 24 January 2014 for comment;
- b) Comments were requested within 14 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, on 28 February 2014.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website;
- A copy sent to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A link included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

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

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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

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

In any event, changes to the FSS would need agreement by the Pensions Fund Investment Panel and would be included in the relevant Panel meeting minutes.

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

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

## Appendix B – Responsibilities of key parties

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

### **B1 The Administering Authority should:-**

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

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

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

### **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and

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- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

### **B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of</p>

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Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

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### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

### C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(j)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and</p>

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Risk	Summary of Control Mechanisms
	<p>encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>



## Appendix D – The calculation of Employer contributions

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*<sup>1</sup>, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer<sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

### D2 How is the Future Service Rate calculated?

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

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix E](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

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<sup>1</sup> See LGPS (Administration) Regulations 36(5).

<sup>2</sup> See LGPS (Administration) Regulations 36(7).

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### **a) Employers which admit new entrants**

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

### **b) Employers which do not admit new entrants**

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

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

### **D3 How is the Solvency / Funding Level calculated?**

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see [D5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

### **D4 What affects a given employer’s valuation results?**

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities

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between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

### **D5      How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

### E3 What assumptions are made in the ongoing basis?

#### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

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### **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

### **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

### **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the peaked ONS projection model to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

### **e) General**

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>liabilities</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are <b>members</b> . There will be an Admission Agreement setting out the employer's obligations. For more details (see <a href="#">2.5</a> ).
<b>Common contribution rate</b>	The Fund-wide <b>future service rate</b> plus <b>past service adjustment</b> . It should be noted that this will differ from the actual contributions payable by individual <b>employers</b> .
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Deficit</b>	The shortfall between the assets value and the <b>liabilities</b> value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
<b>Deficit repair/recovery period</b>	The target length of time over which the current <b>deficit</b> is intended to be paid off. A shorter period will give rise to a higher annual <b>past service adjustment</b> (deficit repair contribution), and vice versa.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>liabilities</b> value which is consistent with the present day value of the assets, to calculate the <b>deficit</b> . A lower discount rate gives a higher <b>liabilities</b> value, and vice versa. It is similarly used in the calculation of the <b>future service rate</b> and the <b>common contribution rate</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>liabilities</b> values for each employer are individually tracked, together with its <b>future service rate</b> at each <b>valuation</b> .
<b>Funding level</b>	The ratio of assets value to <b>liabilities</b> value: for further details (see <a href="#">2.2</a> ).
<b>Future service rate</b>	The actuarially calculated cost of each year's build-up of pension by the current active <b>members</b> , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of <b>actuarial assumptions</b> .

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<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>Liabilities</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Past service adjustment</b>	The part of the employer’s annual contribution which relates to past service <b>deficit</b> repair.
<b>Pooling</b>	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of <b>deficit</b> , or (if formally agreed) it may allow <b>deficits</b> to be passed from one employer to another. For further details of the Fund’s current pooling policy (see <a href="#">3.4</a> ).
<b>Profile</b>	The profile of an employer’s membership or liability reflects various measurements of that employer’s <b>members</b> , ie current and former employees. This includes: the

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proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

### **Rates and Adjustments Certificate**

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

### **Scheduled Bodies**

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

### **Solvency**

In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.

### **Stabilisation**

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

### **Theoretical contribution rate**

The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

### **Valuation**

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.



# Lambeth Pension Fund



## Communication Policy

## Introduction

The Local Government Pension Scheme ( Administration ) Regulation 2008 require administrating authority London Borough of Lambeth to prepare , publish and maintain a policy statement setting out how we communicate with:

- Scheme members and their representatives
- Prospective members
- Employers participating in the fund

This document sets put the mechanisms that we use to communicate. We aim to use the most effective communication methods, keeping the needs of the customer mind.

The objectives of the communication strategy are to:

- improve understanding of the LGPS
- convey consistent messages
- be clear and concise, and avoid unnecessary jargon
- inform people about changes in legislation and the impact on them, for example LGPS 2014 and auto-enrolment in April 2016
- give people information so that they are less likely to opt out of the Fund
- use examples to help clarify messages
- deliver communications on time
- engage with all stakeholders appropriately
- obtain feedback to help with future communications
- reduce costs without compromising on quality if possible

The Lambeth Pension Fund has 26 employers and 19,000 plus members. The Key messages will be tailored to the needs of the recipient.

## Methods of Communications

We communicate with our current and former scheme members, and their representatives, through various means and aim to provide a high quality service.

### Active Members

**Annual Benefit Statements** These are issued to our members during the period September to March. Feedback from our members about our statements has helped us improve our procedures for this process.

**Employee newsletters** A newsletter is issued annually to keep members up to date with proposed changes to the scheme and any other relevant details. Further newsletters are sent to members highlighting issues of importance, such as forthcoming changes in scheme regulation or operation as any issues arise.

**Pension Fund Publications** Information guides, leaflets and forms are available on request covering different aspects of the LGPS; these can also be found on our website.

**Annual Report** An Annual report containing information on the management, administration and performance of the pension fund and pension benefits is published annually. This report can be found online at our pensions website.

**Pension Fund Website** Our pension fund website can be found at [www.lambeth/pensions](http://www.lambeth/pensions) and is available to view at all times. It is regularly updated and revised.

### Pensioners

**Pensioner newsletters** An annual newsletter is sent to our pensioners. This newsletter is used to inform pensioners of the annual pensions increase and also any other relevant information.

**Pensioner's payslips** A payslip is sent annually to all pensioners. If the monthly amount alters by more than £10 a payslip will also be sent.

### Deferred Members

**Deferred Annual Benefit Illustration** These are issued to our deferred members annually

## **Delivering the communication strategy**

### **Communication plan**

The communication plan will list all the communication activities to stakeholders and what Lambeth hopes to achieve with each one. It can help address gaps, act as a checklist and be used to prioritise short, medium and long term actions. The plan will be reviewed regularly.

### **Calendar of events**

A calendar of events will map out communication activities and help to identify gaps and overlaps. It can be used to prevent too many messages going out at the same time which can be confusing and overwhelming for members.

### **Improving member understanding and appreciation**

- Communication activities will be created in plain English and have visual impact. One visual brand will be applied to all materials to help members to recognise that the communication contains important information.
- Communications will be targeted to members so that they only receive messages that are appropriate for them.
- Newsletters will be sent to active members about important changes.
- Pensions Open Days will continue to be held. A summary of questions and answers from the event will be put on the Intranet site. Lambeth will investigate whether webinars and recordings of the event could be used to allow people unable to attend to hear the speeches. Future Open Days may include interactive workshops which may help to increase engagement of the audience.
- Members will be asked to give feedback and where possible this will be measured, for example rating speakers at Pensions Open Days and whether or not their knowledge and understanding has improved as a result of the event. Customer surveys will also be issued with some pension calculations.
- The Pensions Team will regularly review and update the Pensions area of the Lambeth Intranet and Internet sites. They will also keep track of the number of visits to the sites.
- Annual Benefit Statement notes will be reviewed to ensure that they are in plain English and easy to understand. The Pensions Team will consider including information that may encourage people to read it, for example tips on saving for retirement.

### **To reduce the number of people opting out**

- The joining process will be reviewed to ensure that the value of the LGPS as a benefit is made clear.
- Collate feedback about the reasons why people choose to opt out
- Send with opt out forms, details about the benefits of being a LGPS member and a form about the 50:50 section.

### **Improve clarity of messages**

Pensions administrators will check each others letters and e-mails to ensure that they are written clearly and accurately without unnecessary jargon.

### **Improve employer and Fund member representatives' support of the Fund**

The Pensions Team will seek feedback from employers to find out how well they understand the LGPS.

### **Cost savings**

Where possible cost savings will be achieved through purchasing communication materials through the Croydon Framework.

## **Monitoring the strategy**

Lambeth Council recognises that the success of a communications policy relies on how well it is implemented; therefore the following actions will be taken:

- The communication plan will be reviewed at least quarterly.
- Pensions Team meetings will have a communications slot to review progress.
- The communications strategy will be reviewed annually. Feedback from pension scheme members and employers will be used to help shape the strategy.

## **Evaluating the strategy**

Evaluating the effectiveness of communications can help to identify strengths, weaknesses and opportunities. This will be achieved by the following:

- Gaining member feedback by issuing customer surveys and asking questions such as "Do you understand your benefit statement?"
- Looking at records of the types of calls that the Pensions Team receive and whether there have been any changes.
- Recording opt outs.
- Finding out how many people are checking the Pensions areas of the Intranet and Internet sites and whether the figures have changed.

## Contact Details

- **Pension Administration**  
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