

Waltham Forest Council

# Pension Fund Annual Report

## 2015/16



# **LONDON BOROUGH OF WALTHAM FOREST PENSION FUND**

## **PENSION FUND ANNUAL REPORT 2015/16**

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## INTRODUCTION

This Annual Report covers the management and performance of the London Borough of Waltham Forest Pension Fund (the Fund) for the financial year 2015/16

The first part of this Annual Report deals with the investment management structure of the Pension Fund and the fund managers appointed by the Pension Fund to manage the various portfolios. Investment performance for the year is analysed in context of economic conditions prevailing at the time. A report is also provided on the administration performance on the benefits administration service provided over the year.

The second part of the report is concerned with the governance arrangements put in place for the oversight of the Pension Fund and its management, including the approach taken to ethical investment issues.

## Investment Review

### Market Background

On 16 December 2015 the US Federal Reserve finally raised its main interest rate (the Federal Funds rate) by 0.25% from the level set in December 2008. However, just as when the US Federal Reserve ended Quantitative Easing in October 2014 this did not signal a large scale scaling back of the ultra loose monetary policy and interventionist approach of the major Central Banks. The US Federal Reserve made no further adjustments to interest rates in the 2015-16 financial year and the Minutes of the Federal Open Markets Committee held on 15 and 16 March 2016 recorded that the committee expected “*only gradual increases in the federal funds rate.*” As in the previous financial year the European Central Bank and Bank of Japan both expanded their already radical policies of monetary easing. Another “Greek crisis” came and went during June, July and August 2015. Economic (GDP) growth faltered globally. Low inflation and concerns about deflation continued. The 2015-16 financial year was, in clear contrast to 2014-15, a year of overall weakening in Listed Equity prices with both particular issues in Chinese equity markets and a significant reduction in crude oil prices and generally weak commodity prices weighing negatively on markets overall. In contrast Benchmark Government Bonds (Germany, Japan, UK, US) further strengthened.

Anticipation of a rise in US interest rates was a feature of much of the year. The minutes of the meeting of the Federal Reserve’s interest rate setting Committee, the Federal Open Markets Committee (FOMC) for June, July, September and October 2015 all acknowledged a further moderate expansion in economic activity but stated that achievement of the Federal Reserve’s statutory mandate to foster maximum employment and price stability did not yet warrant an increase in interest rates (the Federal Funds rate). Finally, on 16 December 2015 the Federal Reserve raised interest rates with the minutes of the FOMC stating “*The Committee judges that there has been considerable improvement in labor market conditions this year, and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective. Given the economic outlook, and recognizing the time it takes for policy actions to affect future economic outcomes, the Committee decided to raise the target*

*range for the federal funds rate to ¼ to ½ percent. The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.*" The US experienced generally positive economic activity (during the year unemployment fell further from 5.5% to 5%) and domestic market data. The S & P 500 reached an all time high of 2130 on 21 May 2015. US equities were then buffeted by a range of factors. These included concerns about future economic growth, the "Greek crisis" of mid 2015, the equity market sell- off/economic issues in China of August and September 2015 and then again in January 2016 and falling oil and other commodity prices. Despite a strong rally in March 2016 the S & P 500 closed on 31 March 2016 at 2060 very slightly below its closing figure of a year earlier.

In the United Kingdom economic growth fell and inflation remained low with unemployment, however, falling over the year from 5.5% to 5.1%. The Bank of England maintained accommodative monetary policy with the Base Rate remaining at 0.5%. The FTSE All Share index fell over 7% during 2015-16.

The new financial year began with another "Greek crisis" looming. Talks on a new bailout between the Greek Government and the "troika" of the European Central Bank, European Union and International Monetary Fund broke down in late June with Greek Prime Minister Alexis Tsipras calling a referendum on the extension to the bailout proposed by Greece's creditors. The Greek Government imposed controls of 60 Euros a day on withdrawals from personal bank accounts. On 30 June Greece failed to make a repayment on a loan from the IMF. On 5 July Greek voters rejected the proposed extension to the bailout. However within days the Greek government in effect capitulated to its creditors and finally in mid August a new three year bailout was agreed and approved.

In the Eurozone as a whole the unemployment rate fell to 10.2% in March 2016 down 1% from a year earlier and the lowest rate since August 2011 and overall there were clear signs of a strengthening (but limited) economic recovery with annual GDP growth at 1.7% together with positive readings across some indicators including purchasing managers indices and European Central Bank (ECB) bank lending surveys. However there were, as in 2014-15 clear concerns and a continuing potential for deflation with headline inflation at 0% as at March 2016. Low levels of inflation continued to concern the ECB and in December 2015 the ECB extended its 60 billion Euro a month asset purchase programme due to end in September 2016 to March 2017 and cut its deposit rate by 0.1% to -0.3%. These measures however underwhelmed markets and were for example followed by a strengthening of the Euro (which was certainly not intended by the ECB).

Then on 10 March 2016 the ECB announced a genuinely extensive and larger than expected expansion of its already huge stimulus programme involving a further reduction to -0.4% of its deposit rate, together with decreases in its other two main interest rates, an increase in the monthly asset purchase programme from 60 to 80 billion Euros a month from April 2016 together with an extension in its scope to include euro-denominated investment grade corporate bonds except those issued by banks and a further series of four longer term loan programmes to banks to incentivise bank lending. In his statement on 10 March 2016 Mario Draghi the ECB President however stated that *"to reap the full benefits of our monetary policy measures other policy areas must contribute*

*decisively*” and he called upon Governments to implement effective structural policies particularly *“actions to raise productivity and improve the business environment, including the provision of an adequate public infrastructure.”* Despite, however, all the accommodative monetary policy of the ECB during 2015-16 European equities retreated during the year.

Notwithstanding the huge monetary stimulus and attempts at structural reform undertaken in Japan since 2013 following the introduction of “Abenomics” the Japanese economy exhibited declining growth and low inflation expectations. This resulted in yet further monetary easing with Japan introducing a negative interest rate policy in January 2016. In essence the economic theory is that negative rates encourage savers to spend more freely and banks to lend rather than hold deposits, although there is a counter argument that this limits banks ability to lend profitably.

Both Chinese Equity markets and the economy experienced a difficult time during 2015-16. The Chinese authorities introduced a wide range of measures to seek to stabilise share prices in July 2015 (including banning large shareholders from selling for six months) but these failed and in August the Peoples Bank of China devalued the renminbi for three days in a row. Growing evidence of a Chinese economic slowdown, as exemplified by lackluster manufacturing data, added to the issues and in October the Central Bank cut interest rates and bank deposit requirements. After a period of relative quiet the Chinese Government poorly communicated adjustments to the renminbi in December 2015 and Chinese Equity markets plunged again in January 2016. Despite ongoing evidence of economic slowdown Chinese shares rallied in March 2016 as the Chinese authorities indicated further potential economic stimulus.

In contrast to spectacular 2014-15 gains the Indian Sensex Equity index fell during 2015-16 reflecting, in addition to concerns about a global slowdown and other external factors, diminished expectations over the pace of Prime Minister Narendra Modi’s economic reforms.

Equity markets had, overall, a negative 2015-16 with Asian (ex Japan) and emerging markets generally performing more negatively than Developed markets. Concerns about global growth adversely affected equities in general. Falls in Chinese equities had some “contagion” effect while lower oil and commodity prices had a generally negative effect particularly in Emerging markets which also suffered from currency weaknesses. An unusual correlation between equity markets and the price of oil seemed to appear with equities appearing to move in response to oil prices. One plausible factor contributing to this is that both are reacting to a common factor, namely, a softening of global aggregate demand.

An environment of limited GDP growth, low inflation (exasperated by weak oil and other commodity prices), geopolitical uncertainty and continued ultra loose monetary policy by the major central banks supported Benchmark Government Bonds. The Japanese 10 year benchmark yield went negative reducing from 0.41 to -0.05. The German 10 year benchmark reduced from 0.18 at the start of the financial year to 0.15 on 31 March 2016 while that of the UK reduced from 1.70 to 1.54 and that of the US from 1.94 to 1.8.

The policies of Central Banks continue to distort free functioning markets, notably fixed income. This has resultant and potentially pronounced effects for measuring the liabilities of Defined Benefit Pension Schemes where these are in any way linked to Benchmark Government Bond yields.

**John Raisin Financial Services Limited**  
**Independent Advisor**  
**18 July 2016**

## **Fund Investment Strategy**

As the fund has moved to a more diverse approach over the last three years this has had an impact on the fee structure of the fund – in particular the use of alternatives but also the use of performance fees for an active global equity manager. This structure is being used in order to manage risk (particularly volatility) and specifically the use of alternatives. Therefore our fees will be higher but the fund should be more than compensated for this as the performance should more than justified these fees over the long term.

The amendments to the investment strategy:

A decision was made during the year to allocate funds to private sector rental property. Following this, the decision was delegated to the Director of Finance (in consultation with Chair of the Pension Fund Committee, Investment Consultant, Independent Advisor and Pension Fund Office), to review and select an appropriate investment for this allocation. Following a selection process the decision was made to award this allocation to Invesco Perpetual PRS Fund. A commitment of £21.3m was made to this investment.

A decision was made at pension Fund Committee in November 2016 to disinvest from the pension funds investment with BlueCrest after having it under review for a while. Following this BlueCrest made an announcement that they were withdrawing from the institutional market and would be unwinding their investments for institutional clients. At the end of March the fund had received approximately 75% of its investment back from BlueCrest.

Re-balancing was undertaken to property and infrastructure with current investment managers, this was ratified by Committee in March 2016. An addition £13.7m was invested with UBS Triton UK property fund, along with £15m to Capital Dynamic Clean Energy III (onshore wind in the UK) and \$32.4m to Global Infrastructure Partners III fund.

Please see Table 1 below which shows the risk return impact this strategy has already had on the fund:-

<b>Three year Annualised figures as at end</b>						
	<b>March 11</b>	<b>March 12</b>	<b>March 13</b>	<b>March 14</b>	<b>March 15</b>	<b>March 2016</b>
<b>Absolute Risk &amp; Return</b>						
Fund Absolute Return	6.3	18.2	8.8	9.1	11.9	6.5
Fund Absolute Risk	17.0	12.0	10.9	9.7	7.0	7.7
<b>Benchmark Relative</b>						
Return	0.3	1.8	0.8	1.3	2.0	0.4
Risk	4.0	3.1	2.8	2.7	2.5	3.6
Information Ratio	0.1	0.6	0.3	0.5	0.8	0.1

Figures provided by the State Street

Table 2 below shows the current and target strategic benchmarks.

Further detail of the benchmark composition, benchmark indices and performance targets for the managers are contained in the Statement of Investment Principles, (Appendix 2), which was updated in August 2016.

**Table 1 –Current and Proposed Strategic Benchmark**

Manager	Benchmark Weightings Current (%)	Target Benchmark Weightings (%)
UK Equities	40.8	35.4
Global Equities	25.0	23.6
Fixed Income	14.9	15.0
Property	7.6	8.0
Hedge Funds	0.8	5.0
Infrastructure	6.5	10.0
Other Alternative	1.4	3.0
Cash	3.0	0.0
	100	100

A summary of the resulting distribution of fund assets as at 31 March 2016 is shown in Table 2 below. It should be noted that one UK property investment (“RREEF Limited”), one European property investment (DTZ – Aurora property Fund) along with the hedge fund investment (BlueCrest – AllBlue Fund) are in the process of being liquidated. The property portfolio’s take longer to unwinding and should be fully dis-invested by the end of 2017. The hedge fund AllBlue should be fully redeemed by the end of 2016.

**Table 2 - Summary of Fund Investment Assets as at 31 March 2016 and 2015**

Manager	Asset Class	Market Value 31.3.16 £000 millions	Total Fund 31.3.2016 (%)	Market Value 31.3.2015 £000 millions	Total Fund 31.3.2015 (%)
AXA Framlington	UK Equities	298.9	40.8	300.8	40.9
JO Hambro	Global Equities	183.8	25.1	209.2	28.5
Wellington Management	Global Fixed Income	72.8	9.9	108.5	14.8
Wellington Management	Multi Sector Credit	36.5	5.0		
BlueCrest	Hedge Fund	5.7	0.8	29.7	4.0
Global Infrastructure Partners	Infrastructure	19.0	2.6	8.8	1.2
Capital Dynamics	Infrastructure	29.0	3.9	27.2	3.7
DTZ	European Property	3.3	0.5	5.0	0.7
UBS	UK Property	25.5	3.5	11.1	1.5
RREEF	UK Property	0.7	0.1	0.6	0.1
Darwin	UK Property	25.9	3.5	23.6	3.2

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Markham Rae	Hedge Fund	7.9	1.1	7.7	1.0
Impact Ventures UK	Social Impact	2.1	0.2	1.3	0.2
London CIV	London Pooling Ptners	0.2	0.0		
Cash		22.1	3.0	1.8	0.2
<b>TOTAL</b>		<b>733.4</b>	<b>100</b>	<b>735.3</b>	<b>100</b>

Table 2 reflects the movement between asset classes throughout 2015/16. The change in asset allocation over the year reflects the relative performance between the different asset classes and the managers' own relative performance against their own specific benchmarks and the re-balancing of assets between the hedge fund and property in the year. £1.7m was returned to the fund from DTZ Aurora property Fund. This investment is still in wind down with the fund due to close in 2017. Between the two infrastructure funds £8.8m was drawn down and £2.08m returned to the fund. This left an undrawn commitment of £11.7m mainly due to GIP II fund. £1.09m was drawn down into the Impact Venture UK fund leaving an undrawn commitment of £3.72M. The fund also made a commitment of £21.3m to a UK private sector rental property fund during the year, no drawdowns were made during the year. Along with commitment to Infrastructure funds CEI III and GIP III of £15m and \$32.4m.

### **Pension Fund Accounts 2015/16**

The 2015/16 Accounts are attached as Appendix 1. The Accounts show that overall there was a net decrease in the assets of fund of £25.7m from £742.2m at 31 March 2015, to £716.5m at 31 March 2016.

From dealings with members, employers and others directly involved in the scheme, there was a net decrease of £4.9m this was mostly the effect of a 60% increase in transfers out of the fund, and a net increase of 20% in investment management expenses (This is due to the fund alternative investment costs). The fund has to pay fees for funds not yet drawn down and that are not reflected in the net asset values of the investments. This is some negated by the income that has been generated by these assets during the year.

Taking investment income net of management expenses, plus the additions to the Fund from dealings with members provided £235k more funds for investment. The net decrease in the value of the fund investments, (realised and unrealised), was £25.7m. The investment performance for the year is set out in the next section.

### **Pension Fund Performance 2015/16**

#### **Fund Returns 2015/16**

Table 3 below sets out the quarter by quarter results for the Fund in 2015/16. Over the year as a whole the Fund return was -3.6%, against the benchmark return of 1.0%, the Fund showed relative under performance of -4.6%.



**Table 3 – Quarterly Fund Returns 2015/16**

<b>LBWF 2011/12</b>	<b>Q2 April-June 2015</b>	<b>Q3 July- September 2015</b>	<b>Q4 October- December 2015</b>	<b>Q1 January- March 2016</b>	<b>Total Annual Performance 2015/16</b>
	%	%	%	%	%
<b>Fund Return</b>	-2.7	-5.0	+5.3	-0.9	-3.6
<b>Benchmark Return</b>	-1.1	-2.9	+4.0	+1.1	+1.0
<b>Relative Return</b>	-1.6	-2.2	+1.2	-2.0	-4.6

All figures WM Performance Services

Table 4 provides a breakdown of the results for the fund managers for the last two years.

**Table 4 – Fund Manager Returns vs Benchmark 2014/15 and 2015/16**

<b>Manager</b>	<b>Asset Class</b>	<b>Portfolio Return 2014/15 %</b>	<b>Benchmark Return 2014/15 %</b>	<b>Relative Return 2014/15 %</b>	<b>Portfolio Return 2015/16 %</b>	<b>Benchmark return 2015/16 %</b>	<b>Relative Return 2015/16 %</b>
AXA Framlington	UK Equities	+5.8	+6.6	-0.7	-0.6	-3.9	+3.4
JO Hambro CM	Global Equities	+32.4	+12.0	+11.2	-12.6	-0.6	-12.0
Wellington	Global Fixed Income	+2.3	+4.4	-2.0	+0.2	4.4	-4.0
Wellington	Multi Sector Credit						
DTZ	European Property (Aurora Fund)	-18.2	+18.3	-31.3	+4.6	+11.7	-6.3
UBS	UK Property (Triton Fund)	+18.5	+19.2	-0.6	+9.4	+11.7	-2.0
Darwin	UK Property (DLPF)	+10.3	+8.0	+2.2	+10.0	+8.0	+1.8
Markham Rae	Hedge Fund	+32.3	+10.0	+20.2	+3.7	+10.0	-5.7
BlueCrest	Hedge Fund (AllBlue)	+7.4	+10.0	-2.3	-2.3	+10.0	-11.2
Capital Dynamics *	Infrastructure (CEI)	+12.9	+15.0	-1.8	+0.7	+15.0	-12.5
GIP II *	Infrastructure	+43.0	+15.0	+24.3	-0.1	+15.0	-13.2
IVUK *	Social Impact	-12.7	+7.0	-18.4	-19.6	+7.0	-24.8

## Investment Performance

### April 2015 to March 2016

The Fund returned -3.6% over the year against a benchmark return of 1.0% with relative return of -4.6%. The overall negative return for the year was principally due to under performance of the global Equities.

Results from the WM Local Authority Universe showed that the average local authority returned 0.2% in 2015/16. Against the universe the LBWF fund (-3.6%) was ranked 98th out of 88. Our UK equity portfolio manager Axa Framlington ranked 28th and our global equity manager JO Hambro ranked 100th, property portfolio's (ranked 82nd), bonds ranked 26th, alternatives 78th. (Figures from WM Performance Services).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total Fund Return %</b>	<b>-20.1</b>	<b>23.4</b>	<b>11.7</b>	<b>24.4</b>	<b>7.0</b>	<b>-5.7</b>	<b>-24.1</b>	<b>43.1</b>	<b>10.4</b>	<b>4.3</b>	11.8	11.4	12.5	-3.6
<b>Ranking in Local Authority Universe</b>	<b>47</b>	<b>60</b>	<b>36</b>	<b>60</b>	<b>50</b>	<b>85</b>	<b>85</b>	<b>6</b>	<b>3</b>	24	86	3	63	98

LB Waltham Forest Pension Fund returns vs Local Authority Universe figures: WM Performance Services

## Longer Term Performance

(fund returns against the fund benchmark and local authority universe)

### Over 3, 5 and 10 years

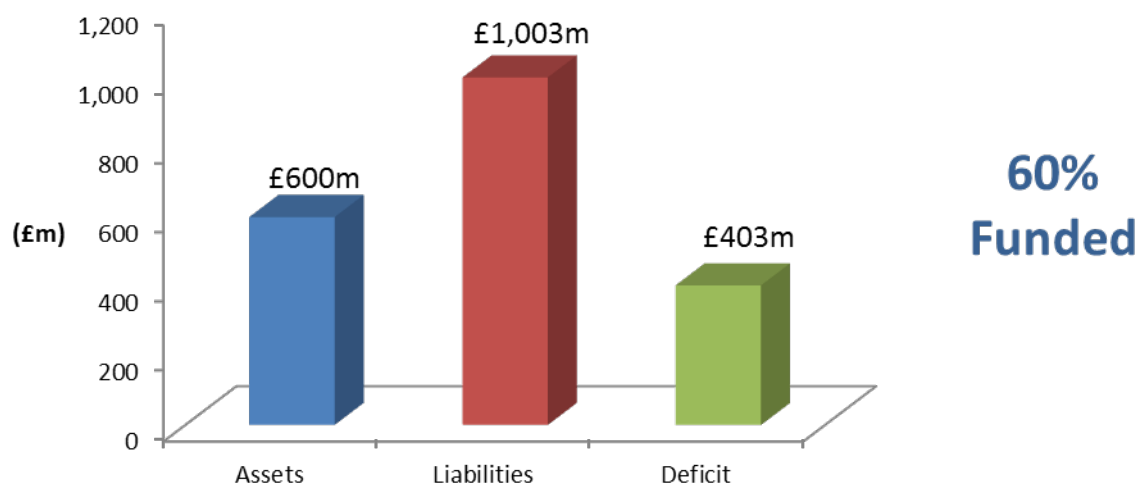
	<b>3 years %</b>	<b>5 years %</b>	<b>10 years %</b>
<b>Fund</b>	6.5	7.1	5.5
<b>Fund Benchmark</b>	6.1	6.7	5.4
<b>Relative return</b>	0.4	0.4	0.1
<b>LA Universe</b>	6.4	7.1	5.6
<b>Relative return</b>	0.1	0.0	-0.1
<b>WM ranking</b>	49	53	50

## Accounts for the year ended 31 March 2016 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough of Waltham Forest Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £600 million represented 60% of the Fund's past service liabilities of £1,003 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £403 million.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position to 63% with a resulting deficit of £348 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £16.1m per annum increasing at 4.1% per annum (equivalent to approximately 13.5% of projected

Pensionable Pay at the valuation date) for 25 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (including ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases (long term)	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

## Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £1,253 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by £77 million. Adding interest over the year increases the liabilities by c£41 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£9 million (allowing for any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £1,208 million.

**Ian Kirk**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**June 2016**

## **Administration and Benefits**

During the year the Council change it's pension benefits administrator from Capita Employee Benefits to the Pension Shared Service (hosted by the London Borough of Wandsworth) this is a shared service partnership between five London Boroughs, Wandsworth, Richmond, Camden, Merton and Waltham Forest.

All employees of the London Borough of Waltham Forest are eligible for membership of the LGPS. Full and part-time employees, whether permanent or temporary (Contract must be for 3 months or longer), become members automatically with the right to opt out (back-dated to the start of membership if made within two years).

**From April 2014 a new LGPS scheme was introduced please see below summary of the main changes to the scheme:-**

- A change from a pension based on final pay to one based on average pay throughout your career.
- A higher accrual rate of 1/49th per year of service rather than the current 1/60th per year of service.
- Benefits are calculated on pensionable earnings each year rather than final salary.
- Benefits are held in a pension account and revalued each year in line with inflation.

**Other important changes that have happened to the LGPS****The Scheme's normal pension age**

This is equal to the State Pension Age (SPA) for both active and deferred members and will be determined at the date benefits are paid. Legislation is in place to increase the SPA to 66 by 2020 with an announcement in the Queen's Speech to raise it again to 67 by 2028 with reviews every 5 years to ensure it keeps in line with life expectancy. Members do not have to wait until SPA to receive their LGPS pension but there may be penalties for drawing it earlier. Find out about SPA at [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension).

**From age 55**

Members will be able to take retirement benefits on leaving from age 55 without needing employer's consent, although an early retirement reduction will apply.

**Employees Contribution Bandings**

New contribution bands with an average contribution of 6.5% mean that members will pay increased contributions if they earn above £43,000. If a member earns £43,000 or less they will pay the same or lower contributions.

Please see below the bandings that were applied for 2015-16 period.

<b>Pay Bands</b>	<b>Contribution Rates</b>
Up to £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%

Over £151,801

12.5%

### **Low Cost Option**

A low cost option allows members to pay 50% contributions to build up 50% of benefits.

The 50/50 option is intended to allow members to continue to save for their retirement during periods of financial hardship. If a member chooses to pay the lower contributions they would build up pension based on a 1/98th accrual rate but death and ill health benefits would not be affected should you need them.

### **Death Benefits**

Death benefits are unchanged in the new scheme with spouse and partners' pensions based on an accrual rate of 1/160 and three times death in service benefit.

### **Additional Contributions**

There are options to pay additional regular contributions (ARCs) to purchase additional pension or contribute to an in-house additional voluntary contribution (AVC) scheme continue.

### **Life Cover**

Life cover in the scheme doesn't change from April 2014. If you die in service whilst an active member of the scheme the scheme will still provide a lump sum payment of three times your annual pensionable pay. The only difference from April 2014 is that pay from non-contractual overtime is included in your annual pensionable pay figure.

You can also continue to express your wish as to who you would like any death grant to be paid to by completing and returning an expression of wish form. You may also wish to update or change your expression of wish form this can be done in the same way. Expression of wish forms are available from your pension fund administrator Capita.

### **Survivors' Pensions**

The scheme continues to provide cover for your family in the event of your death, with pensions for your dependants including spouses, civil partners, eligible cohabiting partners, and eligible children. This is an on-going pension for the rest of your spouse's, civil partner's or eligible cohabiting partner's life and is payable immediately after your death.

For your spouse or civil partner, the survivor's pension is 1/160th of your pensionable pay multiplied by the total membership you would have built up to your Normal Pension Age.

For your eligible cohabiting partner, the survivor's pension is calculated in the same way, although only your membership from 6 April 1988 is used in the calculation plus any of your membership before 6 April 1988 for which you have opted to pay additional contributions so that it counts towards a cohabiting partner's pension.

From April 2014, a survivor's pension will automatically be payable to an eligible cohabiting partner without the need for the scheme member to have completed a form nominating them to receive a survivor's pension.

### ***Scheme rules and benefits pre 1<sup>st</sup> April 2014***

All of the membership you build up in the Scheme before April 2014 will be used to calculate your benefits in the final salary scheme. Only the membership you build up from April 2014 onwards is calculated under the rules of the new career average scheme.

Membership accrual for service up to 31 March 2008, the pension is based on 1/80<sup>th</sup> of the member's final year's pensionable pay. For service after 1 April 2008 and to 31 March 2014, the pension is based on 1/60<sup>th</sup> of the member's final year's pensionable pay.

Further information can be obtained from [www.lgps2014.org](http://www.lgps2014.org) and [www.mylgpspension.co.uk](http://www.mylgpspension.co.uk).

### ***Pensions increases***

If you are under age 55 your pension will be increased if you retired because of ill-health, or your deferred pension was brought into payment early because of ill-health and you are permanently incapacitated from engaging in any regular full-time employment. If you are under 55 and your pension is in payment for any other reason it will normally be paid at a flat rate until age 55. At 55 it will increase to the level it would have been, had it been increased every year since your date of leaving.

Unlike many pension schemes which limit increases, your LGPS pension increases in line with the cost of living. Although pensions are increased in April, they are based on the rise in the cost of living over the 12 months to the previous September.

The pensions increase in 2015 was 1.2% (2014: 2.7%).

### ***Communications***

Pre-retirement courses are held frequently during the year run by human resources. These courses provide members who are approaching retirement with useful information from State benefits to spare time activities.



Enquiries concerning the Local Government Pension Scheme with the London Borough of Waltham Forest or entitlement to benefits should be addressed to:

#### The Pension Shared Service

The Pensions Shared Service is responsible for the benefits administration of the Local Government Pension Scheme (LGPS) on behalf of the Council and any admitted or scheduled bodies whose employees are part of the LGPS.

Pensions Shared Service  
PO Box 72351  
London  
SW18 9LQ

E-mail: [pensions@wandsworth.gov.uk](mailto:pensions@wandsworth.gov.uk)

Telephone: 020 8871 8036

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

<http://www.lgpsmember.org/>

## GOVERNANCE REPORT

### Pensions Fund Committee

In March 2009, the Council agreed to the establishment of a new Pensions Fund Committee with effect from the 2009/10 Municipal Year, with new terms of reference and delegated powers, and recommending that sufficient members be appointed to the Committee to ensure cover and in recognition of the importance of the decisions being taken. At the Annual Council meeting it was decided that 7 Members would be appointed, and that Members with relevant experience and background be encouraged to serve on the new Committee.

When the Committee was re constituted in May 2009 due to the election it was decided that only 5 members would be appointed to the Pension Fund Committee. During the 2015/16 Committee cycle we had two changes on the Pension Fund Committee membership and Unison representative changes.

Members and Observers of the Committee for 2015-16 where

Chair: Councillor Simon Miller  
Vice Chair: Councillor Keith Rayner  
Councillors: Andy Hemsted, Anna Mbacha and Terry Wheeler

Observers: Union (Unison) Representative David Knight  
Pensioner Observer George Beattie  
Employer Representatives Alan Leak and Jo Moore

Independent Advisor John Raisin

Officer Representatives John Turnbull – Director of Finance,  
Debbie Drew – Pensions and Treasury Manager

The following table lists the voting and non-voting rights of each member, observer, officer and their attendance at each Committee meeting for 2015/16:-

<i>Name</i>	<i>Voting Rights</i>	<i>June</i>	<i>Sep</i>	<i>Nov</i>	<i>March</i>
<i>Cllr Simon Miller</i>	<i>yes</i>	√	√	√	√
<i>Cllr Keith Rayner</i>	<i>yes</i>	√	√	√	√
<i>Anna Mbachu</i>	<i>yes</i>	x	√	x	x
<i>Andy Hemsted</i>	<i>yes</i>	√	√	√	√
<i>Terry Wheeler</i>	<i>yes</i>	√	√	√	√
<i>John Turnbull</i>	<i>no</i>	√	√	√	√
<i>Debbie Drew</i>	<i>no</i>	√	√	√	√
<i>John Raisin (Independent Advisor)</i>	<i>no</i>	√	√	√	√
<i>Union Representative David Knight</i>	<i>no</i>	√	X*	n/a	n/a
<i>Union Representative Annabelle Stanford</i>	<i>no</i>	√	√	x	x
<i>Union Representative Lynne McGuinness</i>	<i>no</i>	n/a	√	x	x
<i>Pensioner Representative (George Beattie)</i>	<i>no</i>	x	√	x	x
<i>Employer Representative Alan Leek</i>	<i>no</i>	x	√	x	√
<i>Employer Representative Jo Moore</i>	<i>no</i>	√	x	√	√
<i>Employer Representative Jon Ashwell</i>	<i>no</i>	n/a	n/a	√	n/a

\*observer retired and new representative have been appointed.

\*\*member representatives were sent in replacement of the Committee member and officers

## Pension Board

The Public Service Pensions Act 2013 introduced a number of changes to the governance of the Local Government Pension Scheme (LGPS) including the requirement for each Fund to establish a local Pension Board from 1 April 2015. The detailed regulatory requirements relating to local Pension Boards in the LGPS are contained in the LGPS Regulations 2013 (as amended).

As a consequence of the legislative and regulatory requirements the Council at its meeting on 5 March 2015 approved the Terms of Reference for the local Pension Board for the London Borough of Waltham Forest LGPS Fund. The function of the Pension Board is not, under the Public Service Pensions Act 2013 and the LGPS Regulations, to be a decision making body. Rather, its role is to assist the Pension Fund Committee in securing compliance with the LGPS Regulations, other relevant legislation and with meeting any other requirements placed on the Fund by the Pensions Regulator. The Pension Board also has the

task of assisting the Pension Fund Committee in ensuring the efficient and effective administration of the Fund.

The Board must comprise of equal number of Employer and Employee representatives. The Waltham Forest Pension Board will comprise of at least two Employer and two Employee representatives who may not also be Councillors who are members of the Pension Fund Committee or Officers to that Committee. The Chair of the Pension Board may be one of the Employer or Employee representatives or alternatively, under the Terms of Reference approved by the Council, the Director of Finance may appoint a non-voting Independent Chair.

### **Members of the Pension Board**

Stuart Petrie Employer Representative (Interim Chair)  
Olu Akinfie (Vice-Chair) Member Representative  
Annabelle Stanford Member Representative (Unison)  
Annette House Employer Representative

### **Meetings held:**

28 January 2016

21 April 2016

### **Governance Compliance Statement**

The Council as administering authority to the Fund must publish a statement to demonstrate its compliance with good practice on governance issues. This is required under the LGPS Administration Regulations 2008. The statement must set out the degree of compliance with nine principles set out in a statutory guidance document issued by the Department of Communities and Local Government.

The final version of the Statutory Guidance on LGPS Governance Compliance Statements was issued by CLG in November 2008 and the Fund statement takes into account this version of the statutory guidance.

The statutory guidance accepts that there are many models for the administration and management of Local Government Pension Funds and seeks to set out best practice principles for their governance. As such they may be used by the Council to develop its policies for the management of the Fund in the immediate future, in particular where the statement shows the Fund is not fully compliant with the suggested best practice model.

The Council's Compliance Statement has been amended to take into account the establishment of the new Pensions Fund Committee following the recommendations made during 2008/09 and outlined above and other minor changes in in following years.

The Governance Compliance Statement for the Fund is attached as Appendix 4.

## **Ethical Investment Policy**

The Pension Fund Committee has recognised the need to consider the long term impact on the Fund of the approach taken by companies on governance compliance, responsible investment and sustainable investment issues. This is a complex issue requiring careful analysis and due regard to the legal responsibilities of the Pension Fund.

Taking this into account, the Pension Fund's approach is to work with other LGPS Funds and gain from others experience and approaches through membership of the Local Authority Pension Fund Forum.

### **Local Authority Pension Fund Forum (LAPFF)**

The Fund joined the LAPFF in January 2008. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest. With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

### **Statement of Compliance with the CIPFA Skills & Knowledge Framework**

As the administering authority of the Local Government Pension Scheme, London Borough of Waltham Forest recognises the importance of ensuring all staff and members charged with the financial management and decision making with regards to the pension scheme are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Over the course of 2015/16 members of the Pensions Committee have attended external training and had training delivered by external fund advisors and other pensions experts at the normal Pensions Committee. External Training events were attended by:- Councillor Terry Wheeler. Training covered by normal Committee meetings covered the following topics:

Investment – Asset Classes June 15 and September 15

Actuarial Valuation - September 15

Climate Change and Divesting from Fossil Fuels November 15

During the year various actuaries and Investment consultants attended the Committee meeting and informed on issues relating to current actuarial and investment issues.

**Independent auditor's report to the members of London Borough of Waltham Forest on the pension fund financial statements published with the Pension Fund Annual Report**

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 24 to 48.

**Respective responsibilities of the Strategic Director of Finance and Governance and the auditor**

As explained more fully in the Statement of the Strategic Director of Finance and Governance's Responsibilities the Strategic Director of Finance and Governance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Waltham Forest, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

**Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Waltham Forest for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

**Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local

Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit. We have nothing to report in respect of these matters.

**Philip Johnstone**  
**For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square Canary Wharf London  
E14 5GL

30 September 2016

## **STATEMENT OF RESPONSIBILITIES**

### **THE COUNCIL'S RESPONSIBILITIES:**

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Strategic Director of Finance and Governance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the Statement of Accounts.

### **THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE'S RESPONSIBILITIES:**

The Strategic Director of Finance and Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Director of Finance and Governance has: -

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Local Authority Code.

The Strategic Director of Finance and Governance has also: -

- kept proper accounting records which were up to date, and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## **ISSUE DATE**

The date that these Financial Statements were authorised for issue was 29 September 2016. All known material events that have occurred up to and including this date which relate to 2015/16 or before have been reflected in the statements and notes.

## **CERTIFICATION BY THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE**

I certify that this Statement of Accounts gives a true and fair view of the financial position of the London Borough of Waltham Forest as at 31 March 2016 and its income and expenditure for the year ended 31 March 2016 and I hereby authorise its issue.

Date: 29 September 2016  
John Turnbull CPFA  
Strategic Director of Finance and Governance

## **Pension Fund Advisers and Other Service Providers 2015/16**

During 2015/16, the following provided services to the Pension Fund:

### **Custodial Services**

All assets and cash allocated for investment purposes are held by the Council's custodian bank - State Street:

State Street Bank and Trust Company  
20 Churchill Place  
Canary Wharf  
London E14 5HJ

### **Actuarial Services**

Actuarial services were provided during the year by Mercer:

Mercer Limited,  
Mercury Court,  
Tithebarn Street,  
Liverpool,  
L2 2QH

## **Investment Consultancy and Advice Services**

Investment consultancy advice was provided by Mercer:

Mercer Limited,  
Mercury Court,  
Tithebarn Street,  
Liverpool,  
L2 2QH

## **Pension Fund Performance Measurement**

Statistics provided were by WM Performance Services (A State Street Company):

State Street Investment Analytics,  
525 Ferry Road,  
Edinburgh,  
EH5 2AW

## **Legal services**

In-house by the Director of Governance and Law

Externally By Sackers, 20 Gresham Street, London, EC2V 7JE.

Independent Advice is provided by:

John Raisin, John Raisin Financial Services Limited

## **External Auditors**

External Audit of the Pension Fund Accounts was carried out by KPMG

KPMG LLP (UK)  
15 Canada Square  
London  
E14 5GL



## PENSION FUND ACCOUNT

2014/15 £'000		2015/16 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
	<b>Contributions receivable:</b>		
	Employers:		
16,317	Normal contributions	16,353	
12,226	Deficit contributions	12,369	
3,842	Additional contributions (early retirement)	3,087	
0	Additional contributions (termination)	200	
	From members:		
6,955	Normal contributions	7,155	
239	Additional contributions	77	
<u>39,579</u>		<u>39,241</u>	<b>7</b>
	<b>Transfers in:</b>		
1,457	Transfers from individuals	1,675	<b>8</b>
<u>41,036</u>		<u>40,916</u>	
	<b>Benefits payable:</b>		
(31,701)	Pensions	(32,217)	<b>9</b>
(5,683)	Lump sum retirement benefits	(5,782)	<b>9</b>
(468)	Lump sum death benefits	(381)	<b>9</b>
	<b>Payments to and on account of leavers:</b>		
(16)	Refund of contributions	(64)	<b>10</b>
(1,338)	Individual transfers out to other schemes	(4,355)	<b>10</b>
	<b>Management Expenses</b>		
(693)	Administrative and other expenses borne by the scheme	(958)	<b>11</b>
(217)	Oversight and Governance	(179)	
(6,972)	Investment management expenses	(8,006)	<b>12</b>
<u>(47,088)</u>		<u>(51,942)</u>	
<u>(6,052)</u>	<b>Net (withdrawals)/additions from dealings with members</b>	<u>(11,026)</u>	
	<b>Return on investments</b>		
9,897	Investment income	11,264	<b>13</b>
77,316	Profit and losses on disposal of investments and changes in value of investments	(25,920)	<b>15</b>
<u>87,213</u>	<b>Net return on investments</b>	<u>(14,656)</u>	
	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>	(25,682)	
661,016	<b>Opening net assets of the scheme</b>	742,177	
<u>742,177</u>	<b>Closing net assets of the scheme</b>	<u>716,495</u>	

## PENSION FUND ACCOUNT (continued)

NET ASSETS STATEMENT			
2014/15 £'000		2015/16 £'000	Notes
<b>Investment assets</b>			
Pooled investment vehicles:-			
1,316	LGT	2,106	
0	LONDON CIV	150	
37,400	Hedge Funds	13,569	
36,099	Infrastructure	48,012	
108,491	Fixed interest securities	109,337	15 b
509,976	Equities	482,666	15 c
40,281	Unit trusts - Property	55,442	15 e
1,754	Cash and money market instruments	22,101	17
<u>735,317</u>	<b>Total Investment assets</b>	<u>733,383</u>	
<b>Investment assets and liabilities</b>			
908	Debtor	96	23
(302)	Creditor	(340)	24
<b>Net current assets and liabilities</b>			
3,165	Debtors	1,221	23
(769)	Creditors	(28,386)	24
3,858	Cash in hand/(overdrawn)	10,521	17
<u>742,177</u>	<b>Net assets of the scheme available to fund benefits at the period end</b>	<u>716,495</u>	

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 using the International Accounting Standard IAS19 basis, is disclosed in note 22 of these statements.

RECONCILIATION OF MOVEMENT IN NET ASSETS		
2014/15 £'000		2015/16 £'000
661,016	Fund balance at beginning of year	742,177
3,845	Excess income over expenditure	238
3,049	Net profit/(loss) on realisation of investments	2,046
74,267	Unrealised profit/(loss) on investments	(27,966)
<u>742,177</u>	<b>Fund balance at 31 March</b>	<u>716,495</u>

## 1. INTRODUCTION

The London Borough of Waltham Forest Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Waltham Forest. The London Borough is the reporting entity for this Pension Fund.

The Director of Finance is responsible for the scheme in accordance with standing authority given by the Council. The constitutional arrangements for the decision making for the Pension Fund are made by the Pension Fund Committee which was formed in 2009. The terms of reference for the Pension Fund Committee can be found within the Statement of Investment Principles, as an appendix to the Pension Fund Annual Report 2014/15.

### a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009
- the LGPS (Miscellaneous) Regulation 2012

Under the above regulations it is a contributory defined pension scheme administered by the London Borough of Waltham Forest to provide pension and other benefits for pensionable employees of the London Borough of Waltham Forest and a range of other scheduled and admitted bodies within the borough. Teachers and ex-NHS workers transferred when Public Health became Local Authority controlled in on 1 April 2013) are not included as they come within other national pension schemes.

**The LGPS 2014 Reforms** - Local Government Pension Scheme Regulations 2013, came into effect from 1st April 2014.

These regulations change the scheme from one based on final pay to one based on average pay throughout an employee's career.

The fund is overseen by the London Borough of Waltham Forest Pension Fund Committee.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. This will change in 2017, the Council's deferred staging date, when the Government's auto-enrolment legislation applies.

## 1. INTRODUCTION continued

Organisations participating in the London Borough of Waltham Forest Pension Fund include:

**Scheduled bodies**, colleges and academies whose staff are automatically entitled to be members of the fund. The Council's ALMO Ascham Homes was brought back inhouse from 1 December 2015.

**Admitted bodies**, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 42 employer organisations within the London Borough of Waltham Forest Pension Fund, as at 31 March one admitted body had left the scheme and one joined, under scheduled bodies there was 1 new academy and one body left as detailed below:

31 March 2015		31 March 2016
42	Number of employers with active members	42
	Number of employees in scheme:	
5,041	London Borough of Waltham Forest	5,285
1,764	Other employers	1,504
<u>6,805</u>	Total	<u>6,789</u>
	Number of pensioners:	
5,968	London Borough of Waltham Forest	6,310
593	Other employers	556
<u>6,561</u>	Total	<u>6,866</u>
	Number of Deferred members:	
3,798	London Borough of Waltham Forest	3,999
851	Other employers	733
<u>4,649</u>	Total	<u>4,732</u>

The Pension Fund had the following scheduled and admitted bodies at 31 March 2016:

### Scheduled bodies

Thomas Gamuel Academy  
 Leyton VI Form College  
 Sir George Monoux College  
 Waltham Forest College  
 Walthamstow Academy  
 Sybourn Academy  
 Hillyfields Academy  
 Roger Ascham Academy  
 Yardley Academy  
 Highams Park Academy  
 Barclays Primary Academy  
 Brookfield House Academy  
 Chingford Foundation Academy  
 Chingford Hall Academy  
 Connaught Girls Academy

Chapel End Academy  
 Willow Brook Academy  
 Woodside Academy  
 Reach 2  
 DV8 Trust  
 Joseph Clark School  
 Riverley School  
 Whitefield School  
 Lion Academy Trust  
 Larkwood Academy  
 Longshaw Academy  
 Whittingham Academy  
 William Morris Academy  
 Emmanuel Community School  
 Rushcroft School Academy

### Admitted bodies

Kier Facilities Services Ltd  
 (formerly Caxton FM)  
 CT Plus Ltd  
 Urbaser Ltd  
 London and Quadrant Housing Trust  
 Maidment Judd  
 (Orient Regeneration Trust administrators)  
 J.B.Riney  
 Family Mosaic  
 Kier (May Gurney) Street Lighting  
 Harrison Catering Ltd (Frederick Bremer)  
 Kier Waste  
 Compass Catering  
 Amey

## 1. INTRODUCTION continued

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013.

### d) Benefits

Pension Benefits under the LGPS are based on final pensionable pay and length of pensionable service up until 31 March 2015, summarised below:

#### **Service Pre 1 April 2008**

<b>Pension</b>	Each year worked is worth $1/80 \times$ final pensionable salary.
<b>Lump Sum</b>	Automatic lump sum of $3 \times$ salary. In addition part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

#### **Service Post 31 March 2008 - 31st March 2014**

<b>Pension</b>	Each year worked is worth $1/60 \times$ final pensionable salary.
<b>Lump Sum</b>	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

#### **Service Post 31 March 2014**

<b>Pension</b>	Each year worked is worth $1/49 \times$ pensionable earnings of that year. Benefits are held in a pension account and revalued each year in line with inflation.
<b>Lump Sum</b>	Members of the LGPS before April 2008 will have built up benefits which will include an automatic lump sum. In the new scheme eligible members are still entitled to the aforementioned benefit but can also exchange some pension to get a tax-free cash lump sum. Every £1 of pension sacrificed is equivalent to £12 of tax-free lump sum (subject to HM Revenue & Customs limits).

There are a range of other benefits provided under the scheme including early retirement, ill- health pension and death benefits. For more details, please refer to the Pension Shared Service Wandsworth website [www.wandsworth/pensions](http://www.wandsworth/pensions) or [www.lgpsmember.org](http://www.lgpsmember.org) for more information. Benefits are index-linked in order to keep pace with inflation.

## 1. INTRODUCTION continued

### e) Fund Activity

During the year the fund completed further drawdowns into the infrastructure funds and also into its social impact fund. The Fund also received distributions from its European property fund which is being wound down and should be completed by the end of 2017.

## 2. BASIS OF PREPARATION

The Statement of Accounts summarises the Pension Fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account - revenue recognition

#### a) Contribution income

Normal contributions, both from the member and from the employer are accounted for on an accruals basis at the percentage recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for when paid.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to make additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis.

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

#### c) Investment income

##### (i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### (ii) Dividend income

This is recognised on the date the shares are quoted ex-dividend. Any amount not received at the end of the reporting period is disclosed in the net assets statement as a current financial asset.

#### (iii) Distributions from pooled funds

These are recognised at the date of issue. Any amounts not received by the end of the reporting period are disclosed in the net assets statement as a current financial asset.

#### (iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Fund account - expense items

#### d) Benefits payable

Pension and lump sum benefits include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### e) Taxation

The fund is a regulated public services scheme under section 1(1) of schedule 36 of the Finance Act 2004. It is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

#### g) Investment income expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the fund also pays an element of their fee as performance related with the following managers:

- Darwin Leisure Property Fund
- Markham Rae - Hedge Fund
- JO Hambro Capital Management - Global Equities
- Wellington - Fixed Income
- Capital Dynamics - Infrastructure
- Global Infrastructure Partners - Infrastructure
- BlueCrest - Hedge Funds
- Impact Ventures UK - Social Impact Fund

Performance related fees were paid in 2015/16 and 2014/15 in relation to some of the above funds.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### Net Assets Statement

##### h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

##### i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market ruling on the final day of the accounting period.

##### ii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting.
- Investments in unquoted property and pooled funds are valued at the net asset value or a single price advised by the manager.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property. The valuation of these pools is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

##### iii) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value includes income which is reinvested in the fund, net of applicable withholding tax.

##### i) Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the accounting period.

##### j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

#### k) Financial liabilities

The fund recognised financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

#### l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards [Code 6.5.2.8].

#### m) Additional Voluntary Contributions

The London Borough of Waltham Forest Pension Fund provides an Additional Voluntary Contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employees and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

### 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

#### 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 guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes in the underlying assumptions.

### 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

**6. EVENTS AFTER THE BALANCE SHEET DATE**

There have been no material events post balance sheet date.

**7. CONTRIBUTIONS RECEIVABLE**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
	Employers:	
16,317	Normal Contributions	16,353
12,226	Deficit Contributions	12,369
0	Additional contributions (termination)	200
3,842	Additional Contributions (early retirement)	3,087
7,194	Members	7,232
<u>39,579</u>	Total contributions receivable	<u>39,241</u>

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
32,569	LBWF	34,323
6,037	Scheduled bodies	4,103
973	Admitted bodies	815
<u>39,579</u>	Total contributions receivable	<u>39,241</u>

**8. TRANSFERS IN FROM OTHER PENSION FUNDS**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
1,457	LBWF	1,675
<u>1,457</u>	Total	<u>1,675</u>

**9. BENEFITS PAYABLE**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
31,701	Pensions	32,217
5,683	Commutation and lump sum retirement benefits	5,782
468	Lump sum death benefits	381
<u>37,852</u>	Total	<u>38,380</u>

**9. BENEFITS PAYABLE continued**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
32,688	LBWF	33,992
3,623	Scheduled bodies	2,411
1,541	Admitted bodies	1,977
<hr/>		<hr/>
37,852	Total	38,380

**10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
16	Refunds to members leaving service	64
1,090	LBWF	4139
209	Scheduled bodies	199
39	Admitted bodies	17
<hr/>		<hr/>
1,354	Total	4,419

Individual transfers are payments made for members/leavers who have elected to transfer their future pension benefits/contribution to a different pensions provider. The gross amount transferred for the year was £4.4 million (£1.3 million 2015).

**11. ADMINISTRATION EXPENSES**

Regulations permit the Council to charge administration costs to the scheme. A proportion of relevant council officers' salaries, including on-costs, have been charged to the fund on the basis of actual time spent on scheme administration and investment related business.

Administration, Governance and Oversight expenses during the year were as follows:

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
693	Administration Expense	958
101	Actuary expenses	122
13	Oversight	25
103	Governance/other	32
<hr/>		<hr/>
910	Total administration expenses	1,137

**11. ADMINISTRATION EXPENSES continued**

Benefit administration of the fund was terminated with Capita Employee Benefits (previous named Capita Hartshead Ltd) with effect from 31 st January 2016 and a new contract / shared service commenced on the 1st February 2016 with the London Borough of Wandsworth.

**12. INVESTMENT EXPENSES**

2014/15 £'000		2015/16 £'000
21	Performance measurement expenses	22
23	Custody fees	17
59	Investment consultancy fees	93
6,869	Investment management expenses	7,874
<u>6,972</u>	Total investment management expenses	<u>8,006</u>

The level of investment fees have been significantly influenced by the investment strategy to diversify and manage risk through the use of alternative investment classes and the existence of performance fees.

**13. INVESTMENT INCOME**

Interest and dividends receivable in 2015/16 have been accounted for on an accruals basis. The accrual in the 2015/16 accounts amounted to £96,000 (£908,000 in 2014/15). The total investment income received during the year was £11.3 million analysed as follows:

2014/15 £'000		2015/16 £'000
6,589	Dividends equities	7170
	Income from pooled investment vehicles:-	
1,346	Hedge Funds	1195
1,611	Infrastructure	1448
144	Property	1079
171	Other	325
36	Interest on cash deposits	47
<u>9,897</u>	Total	<u>11,264</u>

Investment income has been grossed up to include fees of £5.9 million for 2015/16 (£4.6 million for 2014/15).

**14. TAXES ON INCOME**

2014/15 £'000		2015/16 £'000
0	Withholding tax - equities	0

## 15. INVESTMENTS

Movements in Investment Assets	Change in					
	2013/14 £'000	Purchases £'000	Sales £'000	market value £'000	Cash movement £'000	2014/15 £'000
Pooled vehicles:-						
LGT UK Impact Ventures	620	775	0	(79)	0	1,316
Hedge Funds	33,461	0	0	3,939	0	37,400
Infrastructure	32,114	7,798	(7,615)	3,802	0	36,099
Pooled vehicle - Fixed interest securities	105,478	0	0	3,013	0	108,491
Equities	440,964	4,602	0	64,410	0	509,976
Unit trusts - Property	41,781	0	(3,729)	2,229	0	40,281
Cash and money market instruments	5,229	655	(22)	2	(4,110)	1,754
Total	<u>659,647</u>	<u>13,830</u>	<u>(11,366)</u>	<u>77,316</u>	<u>(4,110)</u>	<u>735,317</u>

Movements in Investment Assets	Change in					
	2014/15 £'000	Purchases £'000	Sales £'000	market value £'000	Cash movement £'000	2015/16 £'000
Pooled vehicles:-						0
UK Impact Ventures	1,316	1,085	0	(295)		2,106
London CIV	0	150	0	0		150
Hedge Funds	37,400	24,121	(44,623)	(3,329)		13,569
Infrastructure	36,099	8,818	(2,075)	5,170		48,012
Pooled vehicle - Fixed interest securities	108,491	36,300	(36,300)	846		109,337
Equities	509,976	4,147	0	(31,457)		482,666
Unit trusts - Property	40,281	13,742	(1,726)	3,145		55,442
Cash and money market instruments	1,754	61,067	(40,746)	(1)	27	22,101
Total	<u>735,317</u>	<u>149,430</u>	<u>(125,470)</u>	<u>(25,921)</u>	<u>27</u>	<u>733,383</u>

**15. INVESTMENTS continued**

Indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Listed investments are stated at bid-market values, as quoted at the close of business of the relevant stock exchange. Unlisted investments are stated at fair value as advised by the investment managers. Exchange Traded Funds are stated at mid-price as quoted on the relevant stock exchange.

Valuation bases for the portfolios are as follows:

	Description	
AXA Framlington Investment Management	UK (Pooled) Equities	Bid market value
Wellington Management	Global bonds	Fair value
Wellington Management	Global Credit	Fair value
JO Hambro Capital Management	Equities	Fair value
Capital Dynamics	Infrastructure	Fair value
Global Infrastructure Partners	Infrastructure	Fair value
UBS	UK property	Fair value
DTZ Investment Management	Overseas property	Fair value
RREEF Limited	UK property	Fair value
BlueCrest	Hedge Funds	Fair value
Markham Rae	Hedge Funds	Fair value
Darwin	Property	Fair value
LGT	Social Impact Fund	Fair value
London CIV	Collective Scheme	Fair value

INVESTMENTS		
2014/15		2015/16
£'000		£'000
	<b>Pooled investment vehicles</b>	
	<b>Unit trusts</b>	
314,329	Equities UK quoted	307,893
195,647	Global Equities	174,773
35,273	Property	52,131
0	London CIV	150
	<b>Other managed funds</b>	
5,008	Property	3,311
108,491	Fixed interest securities	109,337
37,400	Hedge Funds	13,569
36,099	Infrastructure	48,012
1,316	Social Impact	2,106
1,754	<b>Cash and money market instruments</b>	22,101
<u>735,317</u>	<b>Total Investment assets</b>	<u>733,383</u>

**Analysis of pooled funds with underlying derivatives**

These strategies are implemented through portfolios of highly liquid derivative instruments made up of a subset of asset classes: equity, fixed income, commodity and currency.

## 15. INVESTMENTS continued

Wellington Global Total Return Fund - the Global Total Return Portfolio seeks to generate total returns in excess of a cash index through investments in a diversified portfolio of global fixed income, currency and credit strategies. The Portfolio uses derivatives, primarily liquid government bond futures and currency forwards for the purpose of risk management and alpha generation.

The investment process is opportunistic in nature and therefore can have long and short exposure of varying size to global interest rates, currencies and credit securities. If the process identifies attractive investment opportunities, risk level and position sizes can increase rapidly and significantly. The Portfolio will generally be diversified by country, currency, issuer and investment strategy, but may hold concentrated positions from time to time.

The Portfolio includes positions based on both long-term and short-term investment ideas. The time horizon for macro thematic ideas often have long-term investment horizons, while tactical ideas often have much shorter-term investment horizons. This is a high turnover approach as the investment process employs various relative value investment strategies that are often tactical in nature.

a) Investments analysed by Fund Manager

2014/15				2015/16	
Market value				Market value	
£'000	%	Description		£'000	%
		UBS Global Asset			
11,051	1.50	Management	UK property	25,490	3.48
23,587	3.21	Darwin Leisure	UK property	25,943	3.54
635	0.09	RREEF Limited	UK property	699	0.10
		DTZ Investment			
5,008	0.68	Management	Overseas property	3,310	0.45
300,750	40.90	AXA Framlington IM	UK (Pooled) equities	298,850	40.74
209,226	28.46	JO Hambro	Global (Pooled) equities	183,817	25.06
		Wellington			
108,491	14.75	Management	Global bonds	72,817	9.93
		Wellington			
0	0.00	Management Multi			
		Sector Credit	Global Credit	36,520	4.98
27,211	3.70	Capital Dynamics	Pooled Infrastructure	29,025	3.96
29,665	4.03	Blue Crest	Hedge Fund	5,695	0.78
7,735	1.05	Markham Rae	Hedge Fund	7,873	1.07
		Global Infrastructure			
8,888	1.21	Partners II	Pooled Infrastructure	18,987	2.59
1,316	0.18	Impact Ventures UK	Pooled Social Impact	2,106	0.29
0	0.00	London CIV	Collective Vehicle	150	0.02
1,754	0.24	Cash		22,101	3.01
<b>735,317</b>	<b>100.00</b>	<b>Total Fund Value</b>		<b>733,383</b>	<b>100.00</b>

## 15. INVESTMENTS continued

b) Analysis of fixed interest securities by sector using market values as at 31 March 2016:

2014/15 £'000		2015/16 £'000
108,491	Overseas private sector	109,337
<u>108,491</u>	Total	<u>109,337</u>

There were no index-linked bond investments held as at 31 March 2016 or during the year.

c) Analysis of equities and convertibles by region using market value as at 31 March 2016:

2014/15 £'000		2015/16 £'000
314,329	United Kingdom - listed	307,893
	<b>Overseas Equities</b>	
108,463	United States and Canada	95,015
25,818	Europe	42,094
13,453	Japan	16,746
47,913	Other	20,918
<u>509,976</u>	Total	<u>482,666</u>

d) Analysis of equities and convertibles by type using market values at 31 March 2016:

2014/15 £'000		2015/16 £'000
20,995	Basic materials	29,763
24,031	Consumer goods industry	30,878
92,910	Consumer services industry	102,343
96,653	Health care	59,399
55,282	Financials	52,583
85,289	Industrials	88,536
22,214	Telecommunications	41,475
78,079	Technology	39,630
23,978	Oil and gas	22,926
-	Utilities	3,180
10,545	Other	11,953
<u>509,976</u>	Total	<u>482,666</u>



**15. INVESTMENTS continued**

e) Analysis of property unit trusts by type using market values at 31 March 2016:

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
11,052	United Kingdom - listed	25,490
24,221	United Kingdom - unlisted	26,641
5,008	Overseas - unlisted	3,311
<u>40,281</u>	<b>Total</b>	<u>55,442</u>

**16. PURCHASES AND SALES OF INVESTMENTS**

During the year, the fund purchased investment assets totalling £149.4 million (£13.8 million in 2014/15) and sold investment assets at a value of £125.5 million (£11.4 million in 2014/15). Transactions included futures and cash equivalent purchases of £85.2 million and £61.4 million sales. These transactions were made to cover positions on a hedging strategy for the Pension Fund's UK equity portfolio, managed by Fundo - a Switzerland based fund manager. The fund also invested £36.0 million in a multisector credit mandate after disinvesting the same amount from fixed income, Wellington Management Ltd remains the fund manager. The Pension fund also increased investment in its UK property mandate by £13.7 million. Other transactions were to cover drawdowns of commitments within investments of infrastructure and the social impact fund. During the year £8.8 million was drawdown as part of commitments to the Global Infrastructure Partners II Infrastructure Fund and £1.1 million to Impact Ventures UK fund. Sales included disinvestment of £23.6 million from Blue Crest a pooled hedge fund manager. The managers of the infrastructure returned capital of £2.0 million as a result of equalisations (process of introduction of new investors) within the fund. All other purchases and sales relate to transactions made by the Investment Managers within the portfolios under their management.

**17. CASH HOLDINGS**

<b>2014/15</b>		<b>2015/16</b>
<b>£'000</b>		<b>£'000</b>
1,754	Cash held by investment managers	22,101
3,858	Cash in hand/(overdrawn)	10,522
<u>5,612</u>	<b>Total</b>	<u>32,623</u>

**18. PROPERTY**

Interest on property development is not applicable.

**19. FINANCIAL INSTRUMENTS**

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

**19. FINANCIAL INSTRUMENTS continued**

The income, expense, gains and losses arising from investing activities which are included in the Pension Fund Account are as follows:

<b>2014/15 £'000</b>		<b>2015/16 £'000</b>
	<b>Financial asset at fair value through profit and loss</b>	
<u>(182)</u>	Losses on derecognition	<u>(3,781)</u>
<u>(182)</u>	Total expense in Pension Fund account	<u>(3,781)</u>
9,897	Dividend and interest income	11,264
<u>3,231</u>	Gains on derecognition	<u>5,827</u>
<u>13,128</u>	Total income in Pension Fund account	<u>17,091</u>
97,729	Gains on revaluation	27,833
<u>(23,462)</u>	Losses on revaluation	<u>(55,799)</u>
	Surplus/(deficit) arising on revaluation of financial	
<u>74,267</u>	assets in the Pension Fund account	<u>(27,966)</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

### 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.

**Level 1** Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2** Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3** Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity instruments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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.

	Quoted market price	Using observable Inputs	With significant unobservable Inputs	Fair value
Values at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	628,829	0	82,453	711,282
Loans and receivables	33,939	0	0	33,939
<b>Total financial assets</b>	<u>662,768</u>	<u>0</u>	<u>82,453</u>	<u>745,221</u>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost	(28,726)	0	0	(28,726)
<b>Total financial liabilities</b>	<u>(28,726)</u>	<u>0</u>	<u>0</u>	<u>(28,726)</u>
<b>Net financial assets</b>	<u>634,042</u>	<u>0</u>	<u>82,453</u>	<u>716,495</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

	Quoted market Price	Using observable Inputs	With significant unobservable Inputs	Fair value
Values at 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	676,659	0	56,904	733,563
Loans and receivables	9,685	0	0	9,685
<b>Total financial assets</b>	<u>686,344</u>	<u>0</u>	<u>56,904</u>	<u>743,248</u>
<b>Financial Liabilities</b>				
Financial liabilities at amortised cost	(1,071)	0	0	(1,071)
<b>Total financial liabilities</b>	<u>(1,071)</u>	<u>0</u>	<u>0</u>	<u>(1,071)</u>
<b>Net financial assets</b>	<u>685,273</u>	<u>0</u>	<u>56,904</u>	<u>742,177</u>

## 21. 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 assets will fall short of its liabilities (i.e. Promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund investment strategy. Responsibility for the fund's risk management strategy rests with the Pension Fund committee. Risk is dealt with as part of the Pension Fund's overall policies and strategies. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's investment strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

**21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued****Market risk continued**

The Pension Fund manages these risks in three ways:

- (i) the exposure of the fund to market risk is monitored through a factor analysis to ensure that risk remains within tolerable levels.
- (ii) specific risk exposure is limited by applying risk weighted maximum exposures to individual assets.
- (iii) the investment managers have their own risk parameters within each investment held with them.

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments; this is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

**Other price risk - sensitivity analysis**

In consultation with the fund's performance advisers, following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

<b>Asset Type</b>	<b>Potential market movements (+/-) %</b>
UK equities	11.10
Global Pooled inc UK	15.08
Pooled bonds	1.94
Cash	0.01
Property	7.21
Alternatives	7.83
Total assets	7.69

**21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued**

The potential volatilities are consistent with a one deviation movement in the change of value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

<b>Asset type</b>	<b>Value as at 31 March 2016 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK equities	307,893	11.10	342,069	273,717
Overseas equities	174,773	15.08	201,129	148,417
Global bonds	109,337	1.94	111,458	107,216
Cash	22,251	0.01	22,253	22,249
Property	55,442	7.21	59,439	51,445
Alternatives	63,687	7.83	68,674	58,700
<b>Total assets available to pay benefits</b>	<b>733,383</b>	<b>7.69</b>	<b>789,780</b>	<b>676,986</b>

<b>Asset type</b>	<b>Value as at 31 March 2015 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK equities	314,329	10.39	346,988	281,670
Overseas equities	195,647	11.04	217,247	174,048
Global bonds	108,491	1.88	110,531	106,451
Cash	1,754	12.65	1,976	1,532
Property	40,281	7.58	43,334	37,228
Alternatives	74,815	8.53	81,197	68,433
<b>Total assets available to pay benefits</b>	<b>735,317</b>	<b>7.08</b>	<b>787,378</b>	<b>683,257</b>

The % change for the Total Assets include the impact of correlation across asset classes.

**Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

**21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued****Credit risk**

This is the risk that other parties may fail to pay amounts due to the Pension Fund. For example an interest payment or coupon due may not be paid, or a loan (bond) may not be repaid. The fund allows its investment managers a low level of risk when undertaking investments to reduce the likelihood of a default occurring on an investment. The fund also employs a custodian to ensure that all transactions are settled in an appropriate fashion.

**Liquidity risk**

This is the risk that the Pension Fund might not have the monies available to meet payments due from the fund. Contributions have tended to be greater than benefits paid over the last few years ensuring that enough cash is available to meet payments. The fund currently utilises two bank accounts and three money market funds. The money market funds are held with State Street the fund's custodian who holds cash relating to investment activities. The remaining money market funds are held with Standard Life and Morgan Stanley. The bank accounts are held with Barclays Bank and Nat West Plc . If the fund did not have the monies available to meet its immediate commitments, it is able to borrow for up to 90 days. If there was a longer term shortfall, then assets could be sold to provide additional cash. The fund has a mix of liquid assets such as equities and bonds, alongside small amounts in less liquid assets such as property.

**Refinancing risk**

This is the risk that an investor cannot borrow to repay existing debt. To minimise exposure to this risk, the fund places limits on the amount of leverage investment managers can deploy within portfolios to ensure that all transactions are settled in an appropriate fashion.

## 22. ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2016 - STATEMENT BY THE CONSULTING ACTUARY

Please see page 10 in the Pension Fund Annual Report.

## 23. CURRENT ASSETS

Analysis of debtors outstanding at 31 March 2016:

2014/15 £'000		2015/16 £'000
	Other entities and individuals:-	
1,794	London Borough of Waltham Forest General Fund	0
1,371	Pension contributions	1,221
908	Investment income	96
<u>4,073</u>		<u>1,317</u>

## 24. CURRENT LIABILITIES

Analysis of creditors outstanding at 31 March 2016:

2014/15 £'000		2015/16 £'000
	Other local authorities:-	
0	London Borough of Waltham Forest General Fund	11,830
	Central government bodies	
316	HMRC - PAYE	
	Other entities and individuals:	
453	Accrued benefits	41
302	Investments	340
<u>1,071</u>		<u>12,211</u>



**25. ADDITIONAL VOLUNTARY CONTRIBUTIONS**

During 2015/16, members paid £48,668 contributions to their personal AVCs (£39,871 in 2014/15) and the value of their investments was £725,525 at 31 March 2016 (£720,680 at 31 March 2015).

**26. ADDITIONAL CONTRIBUTIONS FOR EARLY RETIREMENT**

Additional contributions have been made to the Pension Fund on the basis of recovering the additional costs of early retirement, ill-health retirements and corporate redundancies over a period of three years. The additional contribution made in 2015/16 was £3.087 million (£3.842 million in 2014/15).

**27. RELATED PARTY TRANSACTIONS**

There is a strong relationship between the Council and the Pension Fund. The Pension Fund is administered by the Council for which it charged £958,000 in 2015/16 (£693,000 in 2014/15).

The Council is also the single largest employer of members of the Pension Fund and contributed £21.2 million to the fund in 2015/16 (£21.7 million in 2014/15).

Key management personnel and members of the Pension Fund committee cannot be apportioned on a reasonable basis and are therefore disclosed in full in the Council's accounts, please refer to Notes 17, 19 and 20 of the Council's accounts. The Director of Finance holds a key position in the financial management of the Fund, the financial value of this relationship (in accordance with IAS24) is, short term benefits £61,000 in 2015/16 (£61,000 in 2014/15), long term benefits £55,623 in 2015/16 (£51,719 in 2014/15).

**28. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS****(i) Infrastructure funds**

The fund has commitments in relation to its two infrastructure funds, Social Impact Fund and a new interest in a UK Real Estate property fund. These commitments are drawn down in tranches over time as and when the managers request them. The fund had no European property commitments outstanding as at 31 March 2016 as the fund is being wound down (£1.174 million as at 31 March 2015), £11.744 million of infrastructure commitments outstanding as at 31 March 2016 (£18.469 million as at March 2015) and £3.720 million of Social Impact commitments outstanding as at 31 March 2016. The fund has a commitment of £21.300 million in the UK Real Estate property fund which has not been drawn down. These are not required to be included in the Pension Fund accounts.

**29. EXTERNAL AUDIT FEES**

Included within the administration expenses in the Pension Fund Account are the external auditor KPMG's audit costs of £21,000 for 2015/16 (£21,000 in 2014/15). An additional fee of £3,000 was charged for the audit of the Teachers' Pension Return.

**30. FURTHER INFORMATION**

Copies of the Pension Fund Annual Accounts, Annual Report, Statement of Investment Principles, Funding Strategy Statement, Myner's Compliance Document and Pension Fund Valuation 2013 are published on the Council's website: [www.walthamforest.gov.uk](http://www.walthamforest.gov.uk)

## **WALTHAM FOREST PENSION FUND**

### **STATEMENT OF INVESTMENT PRINCIPLES 2016**

#### **Introduction**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are primarily a consolidation of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 with numerous instruments which have amended them since they were made. The 2009 Regulations require administering authorities to prepare, maintain and publish after consultation with such persons as it considers appropriate, a written statement of the principles governing its decisions about the investment of fund money. The Regulations required the publication of the revised Statement of Investment Principles by 1st July 2010.

The Statement must cover the policy on:

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if any) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- (g) the exercise of the rights (including voting rights) attached to investments, if the authority has any such policy and
- (h) Stock lending.

Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance.

#### **1. The Scheme**

- 1.2. The London Borough of Waltham Forest Local Government Pension Scheme ("the Fund") was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Fund is a defined benefit scheme, with benefits determined by a range of statutory provisions. Employee contribution rates set at variable rates against pensionable pay and

employer rates vary depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation proofed in line with increases in the CPI (Consumer Price Index) for September. Prior to 2011 pensions were increased in line with RPI. This change was set down in legislation and historically, CPI has been around 0.5%p.a. lower than RPI.

- 1.3. At a meeting of The Council on 26<sup>th</sup> March 2009 it was approved that a Pension Fund Committee be formed to replace the previous Pension Fund Members Panel. The new Pension Fund Committee has full delegated powers to take all decisions in connection with the exercise of the functions outlined in the Pension Fund Committee Terms of Reference.
- 1.4. The Pension Fund Committee has obtained and considered verbal and written advice from the Director of Finance, the Chartered Institute of Public Finance and Accountancy, investment consultants and World Markets Company and has consulted the Investment Managers, representatives of members of the Fund, admitted bodies, the Scheme's actuary and the funds independent advisor.
- 1.5. This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers, whose activities are regulated by detailed Investment Management Agreements.
- 1.6. The Pension Fund Committee approved the principles outlined in the previously published document on 22 September 2015. This current 2016 revised document was submitted to the Pension Fund Committee on 22 September 2016 for approval before publishing.

## **2. RESPONSIBILITIES**

### **2.1 Pension Fund Committee terms of reference as at the date of the publication are as follows:**

#### **Membership and Meeting Arrangements**

The Committee will comprise 5 Councillors, including a Chair and Vice-Chair appointed by the Council

The Committee may appoint observers to attend and participate in meetings to represent employing authorities and scheme members.

(Note: Observer status is currently available to:

Unison, other unions representation that might be relevant to the authority.  
Staff representative – active contributor, Waltham Forest College, Ascham

Homes, Leyton 6<sup>th</sup> Form College, Sir George Monoux College and Pensioner Representative

Meetings will be scheduled on a quarterly basis. The Head of Legal and Democratic Services after consultation with the Director of Financial Services, and the Chair or Vice-Chair of the committee, may cancel, re-schedule or call additional meetings as required.

The quorum of the Committee shall be two-thirds of the committee's membership (i.e. not including observers), or the nearest whole number below two-thirds.

Members of the Pensions Fund Committee will be offered appropriate training, in accordance with a training policy agreed by the Committee, in order to ensure they have or quickly develop sufficient expertise in investment matters to be able to conduct their Pensions Fund Committee responsibilities and interpret the advice, which they receive.

Minutes of meetings will be kept by the Head of Legal and Democratic Services.

## **Functions**

**The Pensions Fund Committee is responsible for the following, and has full delegated powers to take all decisions in connection with the exercise of these functions:**

- 1.1 determining overall investment strategy and strategic asset allocation for the Pension Fund, taking account of the overall profile of Fund liabilities and considering the approach to tolerance of risk.
- 1.2 to be consulted on the appointment and termination of investment managers and changes to the terms of the mandates of existing managers.
- 1.3 policy with regard to socially responsible investment,

corporate governance and shareholder activism. These tasks may be delegated to the Fund's investment managers, who conduct the delegated tasks in line with the Pensions Fund Committee's policies.

- 1.4 to be consulted on the appointment and termination of Additional Voluntary Contribution (AVC) providers.
- 1.5 to be consulted on the appointment and termination of investment advice consultants, the fund actuary, custodian for Pension Fund assets, and other contracts related to the management of the Pension Fund
- 1.6 maintenance of statutory compliance statements, including the Statement of Investment Principles (SIP), the Funding Strategy Statement (FSS) and the document setting out the Fund's Myners disclosures.
- 1.7 obtaining regular professional advice from the fund managers, officers, investment advisers and the fund actuary as appropriate.
- 1.8 recommending broad policy guidelines for the investment managers.
- 1.9 monitoring the fund and the performance of the investment management arrangements and recommend any changes as are considered appropriate.
- 1.10 receiving details of the annual accounts and agree an Annual Report for submission to the Audit Committee and Full Council .
- 1.11 determining matters related to pensions benefits administration for the Local Government Pension Scheme receiving monitoring reports for performance of the contract for pensions benefits administration
- 1.12 considering issues associated with the membership and marketing of the Fund.

- 1.13 the Director of Finance (section 151 Officer) has delegated authority from the Pension Fund Committee to make investment decision concerning investments with managers and appointments of new managers in consultation with the Chair of the Pension Fund Committee, Pension Fund officers and advisors to the Fund.

### 2.3.1 Investment Managers and Risk Manager

Day to day management of the Fund's investment portfolios and related activities (see Section 6) has been delegated to the Fund's 12 investment managers. These managers have been given the following mandates:

Name of Investment Manager		Mandate Type
AXA Framlington	UK Opportunities Fund	UK Equity Mandate
JO Hambro Capital Management	Global Select Fund	Global Equity Mandate
Wellington Management Company LLP	Global Total Return Fund and Multi-Asset Credit Fund	Global Fixed Income
DTZ	Aurora Property Fund	European (inc UK) Property
UBS	Triton Property Fund	UK Property
Capital Dynamics	Clean Energy & Infrastructure II and III Funds	Infrastructure
Global Infrastructure Partners	GIPII & III Funds	Infrastructure
BlueCrest	AIIBlue Fund	Hedge Funds
Darwin Leisure Property Fund	Leisure Property Fund	UK Property
Markham Rae	Global Macro Fund	Hedge Fund
LGT Venture Philanthropy	Impact Ventures UK	Social Impact
Invesco Perpetual	Private Rental Sector UK Property Fund	UK property

The managers' roles include:

- a. the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by the SIP and the detailed Investment Management Agreement
- b. security selection within each asset class

- c. preparation of quarterly report including a review of investment performance, quarterly valuations of the Scheme's assets and details of all transactions during the quarter
- d. attending meetings of the Pension Fund Committee as requested
- e. voting shares in accordance with the policy set out in the SIP, providing details in a timely manner to State Street Investment Analytics (previously WM) and State Street Custodians for monitoring purposes and accounting.
- f. providing Fund accounting data concerning the investment portfolio and transactions in a timely manner

## **2.4 Custodian**

The custodian, State Street Bank and Trust Company 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.

## **2.5 Performance Management**

The State Street Investment Analytics (previously WM) is responsible for assisting the Pension Fund Committee in their regular monitoring of the investment managers' performance.

## **2.6 Investment Consultants**

The Investment Consultant, Mercer, are responsible for assisting the Pension Fund Committee in monitoring, selection and appointment of investment managers and custodians and for providing advice on investment strategy and structure as requested.

## **2.7 Scheme Actuary**

The Funds Actuary, Mercer, are responsible for:

- a. undertaking a triennial valuation of the Fund's assets and liabilities
- b. setting the contribution rates for the Council and the admitted and scheduled bodies in the Fund
- c. providing the advice required by the Regulations as to the maturity of the Scheme and its funding level in order to aid the Pension Fund Committee in balancing the short term and long term objectives of the pension fund
- d. assisting the Pension Fund Committee in the review of the SIP and FSS

## **2.8 Officers**

The Director of Finance is responsible for:

- a. preparation of annual budgets, annual report and accounts and the business plan for the Fund

- b. ensuring compliance with the SIP and bringing breaches there of to the attention of the Pension Fund Committee and ensuring the SIP and Myners compliance documents are regularly reviewed and updated in accordance with the Regulations
- c. the negotiation of formal agreements with managers, custodians and other investment service providers.

## **2.9 In house staffing support**

In house staffing support is proposed to consist of part duties from the Pensions and Treasury Manager, Principal Accountant, Principal Finance Officer and the Senior Finance Officer. There is a suitably qualified officer to oversee the day to day running of the Pension Fund, but the post is not full time on this task.

## **2.9 Council Constitution and Financial Procedure Rules**

Appropriate revisions will be made to the Council's Constitution and Financial Procedure Rules.

## **3. FUNDING POSITION**

- 3.1. The Pension Fund is a defined benefit scheme, which provides benefits related to final salary for members up until 1 April 2014, from this date a new scheme was introduced which provides benefits on a career average basis (for more information on the new scheme please visit the following website [www.lgps2014.org](http://www.lgps2014.org)). Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the LGPS Regulations. All active members of the Scheme are required to make pension contributions, which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations. From 1st April 2014 this percentage is related to their pensionable pay in April of the relevant year or if an active member commences after 1 April their pensionable pay at their commencement of
- 3.2. The Administering Authority is responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme. Employers' contributions are determined triennially based on the advice and certificate of the Scheme's actuary. The Administering Authority therefore has a direct responsibility for the investment return achieved on the Scheme's assets.
- 3.3. The liabilities of the Pension Fund are the pension due to be paid to current pensioners and their dependents, deferred members of the scheme and the future benefits that will be paid to active members of the scheme. The assets held to meet those liabilities are the investments held by the Pension Fund. The Funds Actuary undertakes an actuarial valuation once every three years in accordance with the regulations. This reviews the projected liabilities of the Fund at the valuation date and the assets held by the Fund to meet those liabilities. Arrangements have been put in place for the funding position of the



Fund to be monitored each year in consultation with the employers and the Scheme Actuary in connection with the preparation of the FRS 17 statement.

- 3.4. The last actuarial valuation was conducted as at 31<sup>st</sup> March 2013. The key statistics relating to reviews of the funding position of the Waltham Forest Fund are as follows:

	Actuarial Valuation  Mar 2001 £m	Actuarial Valuation  Mar 2004 £m	Actuarial Valuation  Mar 2007 £m	Actuarial Valuation  Mar 2010 £m	Actuarial Valuation  Mar 2013 £m
Active members	149	184	288	324	321
Deferred pensioners	56	73	89	133	220
Current pensioners	<u>149</u>	<u>200</u>	<u>296</u>	<u>341</u>	<u>462</u>
Total liabilities	354	457	673	798	1003
Market value of assets	<u>332</u>	<u>318</u>	<u>472</u>	<u>480</u>	<u>600</u>
Deficit	<u>22</u>	<u>139</u>	<u>200</u>	<u>318</u>	<u>403</u>
Solvency of Fund	94%	70%	70%	60%	60%

- 3.5 Under the Local Government Pension Scheme Regulations 2013, the Fund is required to publish a Funding Strategy Statement. This is to set out how the Fund intends to meet its liabilities and where there is a deficit to set out how it intends to recover that deficit. The latest Funding Strategy Statement can be found on the Council website as appendix 3 to the Pension Fund Annual Report 2015/16

#### 4. INVESTMENT POLICY

- 4.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement for their dependants, on a defined benefits basis. Benefits for active members increase as set out in the regulations. Benefits for preserved members are subject to statutory increases.
- 4.2 The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is determined in respect of the employers (Waltham Forest Council and the admitted and scheduled bodies), 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.
- 4.3 The following main aims and objectives have been defined for the purpose of meeting the primary objectives above:
- Ensure that the arrangements for pension fund investments and accounts comply with the relevant legislation and CIPFA recommended practice and both the practice and system documents adopted by the Council from time to time
  - Improve the funding position of the Pension Fund and stabilise the Employer's Contribution rate

- c. Achieve the levels of performance ahead of benchmark agreed with each investment manager and returns required by the actuarial valuation.
- d. Reduce investment costs as a percentage of the Fund Value and as an amount per fund member whilst aiming to meet the return and risk requirements of the scheme.
- e. Improve communication with members and beneficiaries of the Fund on investments, accounts and administration.
- f. Continue to develop corporate governance, socially responsible investment and review investment policies.

4.4 The investment approach is to appoint professional fund managers with clear performance benchmarks and to place accountability on the fund managers for performance against their specific benchmarks. The investment managers discuss the performance of the portfolios under their management with the Pension Fund Committee/Officers on a regular basis. The authority has adopted a 100% active (specialist) manager approach for the Fund with 12 fund managers (from 2015/16).

## **5 INVESTMENTS**

5.1 The investment strategy will be reviewed annually, with a potential major review following the triennial actuarial valuation. However the fund looks at this on an regular basis dependant on market conditions and what is relevant for the return needed for the recovery of the deficit in line with its funding strategy statement.

5.2 A decision was made during the year to allocate funds to private sector rental property. Following this, the decision was delegated to the Director of Finance (in consultation with Chair of the Pension Fund Committee, Investment Consultant, Independent Advisor and Pension Fund Officer), to review and select an appropriate investment for this allocation. Following a selection process the decision was made to award this allocation to Invesco Perpetual PRS Fund. A commitment of £21.3m was made to this investment.

A decision was made at pension Fund Committee in November 2015 to disinvest from the pension funds investment with BlueCrest after having it under review for a while. Following this BlueCrest made an announcement that they were withdrawing from the institutional market and would be unwinding their investments for institutional clients. At the end of March the fund had received approximately 75% of its investment back from BlueCrest.

Re-balancing was undertaken to property and infrastructure with current investment managers, this was ratified by Committee in March 2016. An addition £13.7m was invested with UBS Triton UK property fund, along with £15m to Capital Dynamic Clean Energy and Infrastructure III (onshore wind in the UK) and \$32.4m to Global Infrastructure Partners (various infrastructure i.e transport and energy) and III fund.

## 5.4 The current strategic benchmark, weightings and Targets

Mandate	Manager	Weightings %	Benchmark/ Index	Target
UK Equities	AXA Framlington	35.4	FTSE A All Share	+4% pa
Global Equities	JO Hambro CM	23.6	MSCI AC World	+3% pa
Global Fixed Income	Wellington	15	UCITS – BoA ML 3 Mth US LIBOR (GBP) Non UCITS – BoA ML 3 Mth T-Bill (GBP)  Multi-Asset Credit Fund – composite of 1/3 BofA ML Global High Yield, 1/3 CSFB Bank Loans, 1/3 JPM EMBI+ (Emerging Market Bond Index)	UCITS: +2-4% p.a. Non UCITS: +4-6% p.a.  Managers Target: of 5% to 7% pa
Property:-		8		
European (inc UK) property	DTZ		IPD Property	No formal target. Targets of 8-10% p.a.
UK property	UBS		IPD Property	+1% p.a.
UK property Leisure	Darwin		-	No formal target. In excess of 8% p.a.
UK Residential Property Fund	Invesco		-	8-10 p.a.
other alternatives:-		3	1 month £ LIBOR	
Social Impact	LGT Venture Philanthropy		-	No formal target. 7% p.a.
Hedge Fund	Markham Rae		3 month LIBOR	No formal target. 10-15%p.a.
Hedge Funds	BlueCrest	5	3 Month LIBOR	No formal target. 10-15%p.a.
Infrastructure:-		10		
	Global Infrastructure Ptnrs		CPI	No formal target. 14-16%p.a. gross internal rate of return
Clean Energy	Capital Dynamics		CPI	No formal target. 15-20%p.a. gross internal rate of return

## 5.5 Information on current Investment Managers given below

- (a) **UK Equities** – AXA Framlington has a fundamental growth approach to investing using bottom-up stock selection.
- (b) **Global Equities** – J O Hambro Capital Management – have a concentrated portfolio of 50 stocks all of broadly equal weights. They aim for returns by looking where traditional growth investors do not look. They look for stock returns that are idiosyncratic but recognise that most stocks have varying degrees of beta or correlation to their sector or country, so they also research sectors and countries.
- (c) **Bonds** – Wellington Management Global Total Return is a scalable approach designed to meet client-specified risk and return objectives. It seeks to

generate excess returns over a cash benchmark using diversified alpha sources, specialization, and integrated risk management. The Wellington Multi Asset Credit Fund has three core sectors: high yield, bank loans and Emerging Market Debt but the Fund will also make allocations, as appropriate, to opportunistic sectors including investment grade credit and structured finance.

**(d) Property**

UBS - manage the funds UK property exposure on an active basis through the Triton property Fund.

DTZ - manage the funds European property exposure on an active basis through the Aurora property Fund. This fund is in wind down with ending in 2017.

Darwin - Invest in UK holiday parks where scale and management expertise can be applied to create attractive returns.

Invesco Perpetual – Invest in private sector rental sector, a core plus strategy that aims to invest in developments initially in Greater London and appropriate regional locations

**(e) Infrastructure**

GIP - Invest in large complex assets, with a recent purchase being Edinburgh Airport. This fund is looking to invest in c.12 assets. The return target is high, at 14-16%p.a. and this is expected through operational improvements in the assets purchased.

Capital Dynamics – The Clean Energy and Infrastructure Fund seeks to capture returns from investing in the generation of clean and renewable energy and the supply of that energy into energy markets that the manager believes will become increasingly 'short' relative to mandated targets for more renewables and which may in the near term, become compelled to significantly reduce their carbon intensity. Investments will also be targeted at larger scale energy efficiency projects using asset-based solutions to enhance efficiency and reduce emissions.

- (f) Hedge Funds** – BlueCrest AllBlue is BlueCrest's multi-strategy flagship fund, which is a diversified portfolio of internally managed funds. The investment objective of AllBlue is looking to provide an annual return of 10-15% net of fees with a volatility of 6-8%.

The Waltham Forest Pension Fund determined in November 2015 to commence disinvestment from this strategy.

**(g) Other Alternatives**

LGT Venture Philanthropy (IVUK) - will be investing in social enterprises that create a strong positive social impact for people living in the UK. Focusing on specific and measurable social impact results in the UK and targeting a financial return of 7% IRR net of fees and expenses.

Markham Rae – Is a global macro trading strategy, investing in G10 interest rates and FX contracts across 12 currencies. This fund is looking to make a return net of fees of 10-15%.

London CIV – Following the Governments requirement for all Local Government Pension Schemes to pool there investments, the London Borough of Waltham Forest Pension Fund has agreed that the CIV will be the ultimate vehicle through which it would place new asset allocations as and when they are able to depending on various factors. Where it believe's that managers are under performing and the CIV has a natural and better replacement, we anticipate that we would move managers where the CIV have managers that meet our investment strategy. We will work with the CIV and managers to make this a success. Our funds aim is to get all assets invested over the longer term. We hope that the majority approximately 75% will be invested through the London CIV in the next 3-5 years. With the other illiquid investments coming under the London CIV as these LP's exit and we can invest through the CIV for these assets in the next 5-10 years as and when applicable.

## **6 EXPERT ADVICE**

- 6.1 Mercer is the Fund's actuarial adviser having been appointed from 1<sup>st</sup> November 2011 following a competitive tendering process.
- 6.2 Mercer is the Fund's investment adviser having been appointed from 1<sup>st</sup> November 2011 following a competitive tendering process.
- 6.3 The Pension Fund Committee also receives advice from the Section 151 Officer and the Performance Management consultant State Street Investment Analytics (previously named WM).
- 6.4 The Fund's independent advisor John Raisin Financial Services Limited was appointed by the Pension Fund Committee in November 2011 and re-appointed in November 2014.

## **7. PERFORMANCE MONITORING**

- 7.1 The investment managers provide summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. The Pension Fund Committee receives independent measurement of returns from the State Street Investment Analytics (previously WM Company) quarterly basis and Verification from Mercer Investment Consultants yearly and when it is deemed necessary.
- 7.2 The Pension Fund Committee monitors the relative and absolute performance of its investment managers on a quarterly basis. The monitoring will consider not only the investment returns, but also an assessment of the investment managers' adherence to their mandate requirements. The Pension Fund Committee will also consider the investment managers' investment processes, stability of key personnel and market positions.

7.3 The investment manager's report on performance, their active asset allocation positions relative to the benchmark on a quarterly basis.

7.4 The individual managers' current activity is monitored by the Section 151 Officer and reported to the Pension Fund Committee on a quarterly basis. The Pensions and Treasury Manager along with the Independent Advisor meet with each individual manager, usually, on a quarterly basis.

## **8. Risk**

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

8.2 The return assumptions required to achieve and maintain the Fund Objective are set out in the Funding Strategy Statement following the Triennial 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 scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.4% p.a. The Pension Fund Committee 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.

8.3 The Committee 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 Committee has taken advice on the matter and (in light of the objectives) considered carefully the implications of adopting different levels of risk.

8.4 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. Should there be a material change in the Fund's circumstances, the Committee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

8.5 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 Committee 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.

8.6 The Pension Fund Committee 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. In addition to provide an additional measure of control of this risk the Pension Fund Committee also imposes various limitations and restrictions on the investment managers as detailed in section 9 below.

- 8.7 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 Council will agree particular performance targets with each of the Investment Managers from time to time.

## **9. INVESTMENT RANGES AND TARGET WEIGHTINGS**

Except as stated below, investments may be made in any market, without restriction as to weighting. Investment ranges or target weightings will be agreed between the Council and the Investment Managers individually on a periodic basis, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

### **9.1 Investments Permitted in Specific Circumstances**

The Council wishes to minimise its exposure to the following investment vehicles but Wellington Management, BlueCrest and Markham Rae are permitted to use these investment vehicles for its Global Total Return Fund/Multi-Asset Credit Fund, AllBlue and Global Macro funds:

- a. Exchange-Traded Contingent Liability Transactions
- b. Other Exchange-Traded Derivative Transactions
- c. Off-Exchange Traded Contingent Liability Transactions
- d. Other Off-Exchange Traded Derivative Transactions
- e. Short Sales

### **9.2 Prohibited Investments**

There is to be no lending of portfolio securities to a third party at this present time and the Fund Managers are to observe any restrictions specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

### **9.3 Borrowing**

The Investment Manager may not commit the Council to supplement the Portfolio either by borrowing on the Council's behalf or by committing the Council to a contract, the performance of which may require the Council to supplement the Portfolio. The Investment Manager may, however, incur a temporary overdraft for settlement purposes of up to 2% of the market value of the Portfolio that they hold.

### **9.4 Market and Sector Restrictions**

There are no restrictions.

## 9.5 Diversification

At an overall Fund level, the Committee believes that an appropriate degree of diversification is achieved, whilst still maintaining the required level of expected return. Diversification is obtained via investments in alternative asset classes, but we note also that diversification within equities is achieved by allocating across the globe rather than solely the home market. In addition, the maximum holding in any single equity investment shall be limited to the greater of:

- a. 5% of the market value of the fund; or
- b. the stock's weighting in the relevant index plus 3%
- c. subject to a maximum of 10% of the market value of the Fund at the time of purchase.

## 9.6 Investments which are not readily realisable

In general, the investments of the Fund are liquid, but the Investment Manager may invest the portfolio in investments, which are not readily realisable, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as revised..

## 9.7 Management Arrangements

The investment management arrangements are summarised in the table below:

Investment Manager	Appointed	Brief	Target %
AXA Framlington	July 2007	Active UK equity	35.4
JO Hambro CM	February 2013	Active Global Equity	23.6
Wellington Management	December/January 2011/12	Active Global Bonds	15
DTZ Investment	September 2007	European Property	1
UBS GAM	December 2002	UK Property	3
BlueCrest	March 2013	Hedge Fund	0
Capital Dynamics	2012	Infrastructure	7
GIPII	2012	Infrastructure	7
Markham Rae	November 13	Hedge Fund	1
Darwin	September 13	UK Property	3
IVUK	December 13	Social Impact	1
Invesco	December 15	UK Residential Property	3



## Benchmarks for Fund Managers

9.8 The following benchmarks apply from March 2016.

Asset Class	Weighting %	Range %
UK Equities	35.4	+/-5
Global Equities	23.6	+/-5
Global Fixed Interest	15	+/-5
Property	8	+/-3
Other Alternative Opportunities	3	+/-3
Hedge Funds	5	+/-3
Infrastructure	10	No range
Total	100	

## 10. CORPORATE GOVERNANCE

Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the authority's corporate governance policy as set out below. Where necessary the fund managers can use their discretion in the interpretation of the policy, without reference back to the Council and the action taken will be reviewed between the Council officers and the fund managers and by the Pension Fund Committee as required.

The Pension Fund reserves the right to instruct the Fund Manager to vote in a particular way in connection with its holdings if it feels that this is a necessary step to be taken.

The objective of these policies is to preserve and enhance long-term shareholder value.

### 10.1 Concentration of Executive Authority

The roles of Company Chairman and Chief Executive should be kept separate to avoid a concentration of executive power, unless:

- There is a strong independent element on the board of directors in the form of a sufficient quorum of fully independent directors, one of whom is designated deputy chairman or senior non executive director or
- A temporary arrangement is required whilst one of the positions is vacant or
- The company has openly and publicly justified the arrangement and the reasons are sound.

## **10.2 Nomination Committees and Election of Company Directors**

- a. Appointments to the board of directors should be made open through a Nominations Committee comprising a majority of the independent non-executive directors.
- b. A third of the board should stand down each year and no director should serve more than three years at a time and there should be published criteria for selection of directors.
- c. Fund Managers can also vote against any director whom they feel has not performed his role effectively and in particular against the chair of the audit or remuneration committee if they feel the committees are not effective and the chair is not effective.
- d. Fund Managers can vote against executive directors being elected to these committees.

## **10.3 Independence of Non-Executive Directors**

- a. One third of the board or at least three directors should be non-executive and the majority of these should be independent in being free of business relationships and blood relationships and not receiving a significant remuneration.

## **10.4 Service Contracts**

- a. There should be short-term contracts for directors. Rolling contracts of one year, two-year rolling contracts where these are justified by the remuneration committee and fixed contracts up to two years with subsequent terms on a one year rolling period are acceptable.

## **10.5 Remuneration**

- a. There needs to be adequate disclosure of the details, challenging targets to be met and remuneration in line with comparable benchmarks.
- b. Director's pay should be linked to the results of the company
- c. There should be a properly constituted remuneration committee made up of independent non-executive directors.

## **10.6 Incentive Schemes**

- a. Long term incentive plans should directly align the interests of directors with shareholders, establish challenging performance criteria, which measure performance by total shareholder return in relation to the market or comparable companies, are at least of three years duration and encourage long term ownership of shares. If fund managers are not satisfied they should try to secure changes by dialogue with the company rather than simply voting against the proposals.

## **10.7 Auditors**

- a. Companies must appoint auditors annually and fix their remuneration in accordance with legal requirements.
- b. The company needs to comment in its annual report on its compliance with the Combined Code on Corporate Governance and on its system of internal control and risk management.
- c. There should be an independent audit committee, with a majority of independent non-executive directors, within the company's structure.

## **10.8 Political Donations**

- a. The Council does not support political donations on the grounds that they are an inappropriate use of shareholders' funds. Where companies do put forward specific resolutions, the Council's views should be conveyed to the Board of Directors.

## **10.9 Changes to Memorandum or Articles of Association**

- a. Fund managers should consider each proposal on its merits and oppose attempts to withdraw pre-emption rights for any share issue exceeding 5% of the existing shares issued.

## **10.10 Dividend Policy**

- a. Offers of enhanced scrip dividends, scrip dividend proposals or dividend reinvestment schemes should be considered on their merits and fund managers should vote according to what they think is in the long term interests of Waltham Forest as shareholder.

## **10.11 Take Over Bids**

- a. Fund managers should make a decision based on whether the proposal and price offered for shares is in the client's best long-term interest.

## **10.12 Annual Report and Accounts**

- a. Companies must comply with best practice and the Corporate Governance codes in making full disclosure of their policies. If this is not the case fund managers should vote against the adoption of the annual report and accounts.

## **11. SOCIALLY RESPONSIBLE INVESTMENT**

- 11.1 With regard to socially responsible investment the Authority is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes

- a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
  - b. Administering authorities are free to avoid certain kinds of prudent investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make “ethical” investments provided these are otherwise justifiable on investment grounds.
  - c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the fund consistent with proper diversification and prudence is paramount.
- 11.2 The Waltham Forest Pension Fund invests a small proportion of its assets in a private equity fund run by Impact Ventures UK that invests in projects aiming to deliver a positive social impact. Outwith this investment, it is not proposed that positive or negative screening should be adopted by the Fund on socially responsible issues.
- 11.3 The Waltham Forest Pension Fund wish to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance the trustees would like environmental issues, human rights and employment standards to be raised with company management. Environmental issues could include issues such as conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.
- 11.4 The trustees are prepared to give fund managers full discretion on the interpretation of this policy. Fund managers may proceed in this area by encouraging companies to formulate codes of conduct and monitoring compliance and employee participation or by raising specific issues with company management as appropriate. Fund Managers may raise other issues not included in the definition above if they feel that this appropriate and in keeping with Waltham Forest Pension Fund policy.
- 11.5 In circumstances when the Fund is invested in the fund managers’ pooled funds it is recognised that the above policies may not be implemented and in these cases it will be the manager’s SRI policy which will be followed.
- 11.6 It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.

- 11.7 The London Borough of Waltham Forest has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds.

## **12. COMPLIANCE**

- 12.1 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.

- 12.2 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 2012 – A guide to the Application of the 2008 Investment Governance Group Principles to the Management of LGPS Funds (which are otherwise known as the Myners Principles). The principles revolve around Pension Fund investment, scheme 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.

- 12.3 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

- 12.4 The Principles and the requirements are set out in Appendix 1 to this report. Compliance against these principles is also detailed in the appendix.

## APPENDIX 2

### PRINCIPLES FOR INVESTMENT DECISION MAKING AND DISCLOSURE IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINGDOM 2012 – APPLICATION OF THE 2008 INVESTMENT GOVERNANCE GROUP PRINCIPLES (OTHERWISE KNOWN AS THE MYNERS PRINCIPLES 2008) TO THE MANAGEMENT OF LGPS FUNDS

The LGPS (Management and Investment of Funds) Regulation 2009, regulation 12(3) requires Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State and give reasons for non-compliance.

#### Principles

##### Effective Decision Making

Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### Compliance Statement

##### Partially Compliant

The Pension Fund Committee is the body responsible for the management of the Pension Fund.

The committee meet quarterly and receive training as required by the CIPFA “Pensions Finance, knowledge and skills framework”. Papers are circulated in advance of meetings. The Committee recognise their fiduciary responsibilities for managing the Pension Fund. Briefing meetings are held with the Chair of the Pension Fund Committee prior to each Committee.

The CIPFA “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010) is adopted as the basis for its training and development programme.

The fund re-appointed the existing Independent Advisor to the Pension Fund in November 2014 for a three year period. The independent advisor attends meetings of the Pension Fund Committee and quarterly fund manager meetings where possible. This role of covers some governance and investment issues.

The Committee receives advice from Fund Officers and, in addition, has appointed an Investment Consultant (Mercer) and an Independent Advisor to support decision making across the breadth of investment/governance issues where necessary which are considered by the Pension Fund Committee.

The Pension Fund has a 3 year business plan which is Reviewed and updated yearly.

##### Clear Objectives

- An overall investment Objective(s) should be set out for the Fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisers and investment managers.

##### Compliant

The committees investment objectives are as follows:-

- to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.
- manage employers’ liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk

## APPENDIX 2

parameters.

- The Committee regularly reviews the asset/liability position of the Fund and seeks advice from its advisers including Fund Actuary when determining investment policy. The Fund has its own objective for performance.

The Fund lays down in detail its investment strategy in its Funding Strategy Statement and its Statement of Investment Principles. These can be found on the Councils web site with the Pension Fund Annual Report for 2015/16.

### Risk and liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

### Partially Compliant

The Fund Actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and liabilities. The Committee receives regular updates on the funding position of the Fund, performance and review of asset allocation and benchmarks.

The Fund is required to take investment risk to achieve the 7.0% out-performance required in the assumptions underpinning the actuarial valuation and Funding Strategy Statement.

The funds risk register which is reviewed on a yearly basis will be approved at the Pensions Committee in September 2016, it will also be attached as an appendix to the Pension Fund Annual Report.

The Committee is aware of their responsibility to all stakeholders in the Fund including local tax payers. We communicate regularly with employers in the Fund and hold Seminars to update them on the valuation process, giving them an opportunity to ask any question as and when required.

Various investment strategy reviews were undertaken during the year along with rebalancing too infrastructure and property.

All External Audit reports are taken to Committee following production.

### Performance assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

### Partially Compliant

Formal arrangements are in place for monitoring both quarterly and longer term performance of the Fund's investments and investment managers with the use of the Funds investment consultants and external performance measurement service.

The Pensions and Treasury Manager and the Independent Advisor normally meet with each individual investment Manager on a quarterly basis.

The Pension Fund produces an Annual Report in relation to the Fund's activities, performance, accounts and governance arrangements. Members are also involved in a training programme which is in line with the requirements of the CIPFA Knowledge and Skills Framework.

## APPENDIX 2

The Committee's performance can be reviewed against the Pension Fund Business Plan that is reviewed and updated on an annual basis.

### Responsible ownership

Administering authorities should:

- recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code.
- include a statement of their policy on responsible ownership in the Statement of Investment Principles; and
- report periodically to scheme members on the discharge of such responsibilities.

### Partially Compliant

The Funds Statement of Investment Principles (SIP) contains a statement on the Funds policy towards socially responsible investment.

Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the Pension Funds corporate governance policy as set out in its SIP. Action taken will be reviewed at the quarterly meetings between the Council officers and the fund managers and by the Pension Fund Committee twice a year.

The London of Waltham Forest Pension Fund is a member of Local Authority Pension Fund Forum (LAPFF), which comprises of 71 local authority pension funds. The forum promotes the investment interests of its members, and it maximises their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

ESG issues are generally reported yearly by the funds investment Consultant Mercer.

### Transparency and reporting

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and
- provide regular communication to scheme members in the form they consider most appropriate.

### Partially Compliant

The Fund's Governance Policy, Compliance Statement and Fund's Communication Policy Statement setting out the Fund's policies in respect of governance and communicating with stakeholders can be found along with the Funds Annual Report and Accounts, risk register, business plan and pension administration strategy on the Council's website.

From 2015 the Fund has established (in accordance with the LGPS Regulations) a Pension Board consisting of equal Numbers of Employee and Employer representatives. The Board which has the role of "assisting" the Pension Fund Committee (which however retains the decision making role for the Fund) will facilitate increased communication with both Employers and Employees.

The Fund aims to hold at least one employer seminar per year to update and make employers aware of any issues or just to refresh information allowing for employers to feed back idea's and ask questions.

The Fund seeks to send out annual newsletters to active And pensioner members of the Pension Fund. In addition active and deferred members of the scheme are sent Annual Benefit Statements.

News letters are also sent as and when required. We also provide members with information as to where they can find out more about the Fund and the LGPS in general.



## LONDON BOROUGH OF WALTHAM FOREST PENSION FUND 2013 Funding Strategy Statement (FSS)

*This Statement has been prepared by London Borough of Waltham Forest (the Administering Authority) to set out the funding strategy for the London Borough of Waltham Forest Pension Fund (the LBWFPPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

### 1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Administration Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the LBWFPPF, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the LBWFPPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the LBWFPPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The LBWFPPF is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the LBWFPPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”) and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) governs the LBWFPPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the LBWFPPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

## **2. PURPOSE OF THE FSS IN POLICY TERMS**

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement 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 requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the LBWFPPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## **3. AIMS AND PURPOSE OF THE LBWFPPF**

**The aims of the Fund are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

**The purpose of the Fund is to:**

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as

amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

#### 4. RESPONSIBILITIES OF THE KEY PARTIES

**The Administering Authority** should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBWFPP's actuary
- review the investment strategy of the LBWFPP
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- prepare the annual report and accounts for the LBWFPP and arrange for the actuary to provide FRS17 statements for the separate employers in the LBWFPP if required
- monitor all aspects of the LBWFPP's performance and funding and amend FSS/SIP as and when appropriate
- appoint, terminate and monitor the performance of the investment managers and providers for additional voluntary contributions, and
- manage the appointment and relationships with the administrators in a manner consistent to support the above.

**The Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- 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, ill health retirement and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

**The Fund actuary** should:

- prepare valuations including the setting of employers' contribution levels after agreeing assumptions with the Administering Authority and having regard to the FSS and other Fund policies
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,

- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

## 5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

### Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the LBWFPPF to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

### Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the LBWFPPF is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term, and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the distinct employers in the LBWFPPF.

In attributing the overall investment performance obtained on the assets of the LBWFPPF to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the LBWFPPF as a whole.

All costs in relation to early retirements (including those due to ill health) will be funded as they occur over a maximum period of 3 years. These costs will be assessed on the basis of the actuary's advice, as required.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution requirements arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the LBWFPPF does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain. As a result, the LBWFPPF will operate a default recovery period of 14 years (compared to 17 years at the 2010 valuation).
- Subject to the agreement of the Administering Authority, a maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- Contribution reductions may only apply if an employer's deficit recovery period is in line with (or shorter than) the default recovery period.
- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 14 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.
- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.
- Where increases in contribution levels are required, subject to sufficient demonstration of an employer's financial strength to the Administering Authority, these may be implemented in steps over a period of up to [6] years.
- On the cessation of an employer's participation in the LBWFPPF, the actuary will be asked to make a termination assessment. Any deficit in the LBWFPPF in respect of the employer will be due to the LBWFPPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the LBWFPPF to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate policy note.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

### **Deficit Recovery Plan**

If the assets of the LBWFPPF relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the LBWFPPF or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the LBWFPPF.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

In certain instances, and in particular for LBWFPPF employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular reflect the actual investment strategy of the LBWFPPF, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

### **The Normal Cost of the Scheme (Future Service Contribution Rate)**

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

## **6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 60% covered by the current assets, with the funding deficit of 40% being covered by future deficit contributions and investment returns.

In assessing the value of the LBWFPP's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the LBWFPP, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the LBWFPP's assets in line with the least risk portfolio would minimise fluctuations in the LBWFPP's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the LBWFPP had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the LBWFPP investments. On this basis of assessment, the assessed value of the LBWFPP's liabilities at the 2013 valuation would have been significantly higher, and the declared funding level would be correspondingly reduced.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

<b>Asset Class (Summary)</b>		<b>%</b>
	UK Equities	35.5
	Global Equities	23.6
	Fixed Income	15
	Property	8
	GTAA/other alternatives	3
	Hedge Funds	5
	Infrastructure	10
	<b>TOTAL</b>	<b>100.0</b>

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum.

## 7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the LBWFPPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the LBWFPPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

### What are the Risks?

#### Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

#### Demographic

- Longevity horizon continues to expand



- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than that built into the actuarial assumptions.

### **Insurance of certain benefits**

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the LBWFPPF.

### **Regulatory**

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

### **Governance**

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

## **8. MONITORING AND REVIEW**

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the LBWFPPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the LBWFPPF

**Name John Turnbull**

**Title Director of Finance**

**London Borough of Waltham Forest as lead authority for the London Borough of Waltham Forest Pension Fund**

**ACTUARIAL VALUATION AS AT 31 MARCH 2013****Method and assumptions used in calculating the funding target****Method**

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the LBWFPP on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

**Financial assumptions*****Investment return (discount rate)***

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the LBWFPP's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the LBWFPP relative to the yields available on long dated gilt stocks as at the valuation date.

***Inflation (Consumer Prices Index)***

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the LBWFPP's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

***Salary increases***

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the LBWFPP. This results in a total salary increase of 1% per annum for the first three years following the valuation with it then being in line with CPI for the following three years. The long term assumption of 1.5% per annum above CPI would then apply at the end of the six year period.

***Pension increases/Indexation of CARE benefits***

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

**Demographic assumptions*****Mortality***

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting LBWFPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

**Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

***Other Demographics***

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, at the discretion of the Administering Authority, allowing for take-up of the 50:50 option may be made up to a maximum of 5% of current and future members for certain employers (who have sufficient size of current contributing members). Other assumptions are as per the last valuation.

***Expenses***

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

***Discretionary Benefits***

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the LBWFPF will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

**Method and assumptions used in calculating the cost of future accrual**

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

**Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation**

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

**Demographic assumptions**

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	153% / 110%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	113% / 101%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / 97%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	113% / 101%	CMI_2012	1.5%

**Other demographic assumptions are noted below:**

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	No allowance

**Assumptions used in calculating contributions payable under the recovery plan**

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years and for additional returns to be earned by the LBWFPPF.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the LBWFPPF's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

**Increases in yields on fixed and index linked gilts**

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

**Investment return on existing assets and future contributions**

In addition, a maximum overall return of 2.5% p.a. in excess of gilts, reflecting the underlying investment strategy of the LBWFPPF and, in particular, including the assets of the LBWFPPF that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

Again, the above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the 2010 valuation will be no less than the current level of contributions payable by the employer or the Future Service Contribution Rate.

## **LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2015**

On 30 June 2007 the LGPS regulations 1997 (as amended) (73A(1)(c)) requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under regulation 31(3) (c) LGPS Administration Regulations 2008 to give, in their governance compliance statement, the reason for not complying.

### **Principle A - Structure**

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Non Compliant				Fully Compliant	
a)					√
b)				√	
c)			n/a		
d)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item b) LBWF has no deferred member representation.

Comments on ratings given above:

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2015**

**Principle B - Representation**

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- i) employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members),
- iii) where appropriate, independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Non Compliant				Fully Compliant	
a)				√		
b)					√	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item a) ii) LBWF does not have direct representation for deferred ex-members, because of difficulty of identifying candidates and communicating with this constituency.

Comments on ratings given above:



**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2015**

**Principle C - Selection and role of lay members**

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

Non Compliant				Fully Compliant	
a)					√
b)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

**Principle D – Voting**

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Non Compliant				Fully Compliant	
a)				√	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

The Pensions Fund Committee received a report at its first meeting concerning the appointment of observers. This report was clear that observer posts carried no voting rights and the reason for taking this approach. The Committee's approach to voting rights will be considered as part of the development of a Fund business plan.

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2015**

**Principle E – Training/Facility time/Expenses**

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

Non Compliant					Fully Compliant
a)					√
b)					√
c)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

**Principle F – Meetings (frequency/quorum)**

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2015**

Non Compliant				Fully Compliant	
a)					√
b)			n/a		
c)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

Item b) There is no secondary committee or panel.

Item c) Lay members are included as observers to the Pensions Fund Committee (the main committee)

**Principle G - Access**

a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

Non Compliant				Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

**Principle H – Scope**

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Non Compliant				Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2015**

Comments on ratings given above:

**Principle I – Publicity**

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Non Compliant				Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

Item a) Newsletters are circulated to scheme members and pensioners on scheme issues. These have been used to advertise representative vacancies as they arise. This Governance Compliance Statement will be published as part of the Pension Fund Annual Report as required by the Regulations and will be available to stakeholders on the Council's website.

**London Borough of Waltham Forest Pension Fund  
Communications Policy Statement 2016**

1. The principal objectives of this Communications Policy shall be as follows:
  - to communicate the provisions and requirements of the Local Government Pension Scheme accurately to all stakeholders;
  - to identify and meet all regulatory requirements regarding provision of information;
  - to promote appropriately membership of the Scheme to employees of participating employers;
  - to communicate clearly to all stakeholders their own responsibility for communications and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications as needed;
  - to ensure communications are made in a timely manner;
  - to use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.
2. The major stakeholders for the purpose of this policy are as follows:
  - Members
  - Representatives of members
  - Prospective members
  - Employers
3. Day-to-day responsibility for the operation of the policy shall be delegated to the Pension Shared Service (hosted by the London Borough of Wandsworth (as at 1 February 2016), the third party benefits administrators of the Fund. Their functions shall include the following:
  - Arranging for the publication of booklets describing the Scheme in Waltham Forest, ensuring these are given to all new members on joining and any other members on request
  - Producing and sending annual benefit statements to all active members
  - Giving prompt and accurate replies to all correspondence and enquiries received
  - Arranging for appropriate and accurate information to be published on the LBWF website
  - Providing a separate e-mail address for members to contact
  - Providing access to the LGPS website
  - Ensuring prospective new members are advised of the benefits of the Scheme as part of the induction process
4. This statement shall be revised by the Pensions and Treasury Manager if there is any material change in the Administering Authority's Communications Policy.

# London Borough of Waltham Forest Pension Fund Risk Register

Updated September 2016

Ref	Directorate	Council Priorities	Category	Risk Title	Risk Owner	Risk Champion	Status	Uncontrolled Profile	Current Profile	Review Date
PEN0001	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Under performance of one or more of the pension fund investment managers leading to poor performance of the fund, loss of assets etc.	Debbie Drew	Brian Moldon	Treat	High	Medium	29/10/2016
PEN0002	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Failure to comply with the legal requirements associated with the pension fund, including maintaining and updating annual strategies, policies, statements and financial reports, resulting in qualified account by external audit.	Debbie Drew	Brian Moldon	Treat	Medium	Negligible	29/10/2016
PEN0003	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Incorrect actuarial assessment / triennial valuation of the pension fund leading to unrealistic levels of funding.	Debbie Drew	Brian Moldon	Treat	High	Medium	29/10/2016

# London Borough of Waltham Forest Pension Fund Risk Register

Updated September 2016

PEN0004	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Pension Fund deficit widens leading to much higher employer contributions (life expectancy vs stock market).	Debbie Drew	Brian Moldon	Treat	High	Medium	29/10/2016
PEN0005	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Transfer of Pensions Administration data to new system from Capita is incorrect which could impact adversely on fund valuation.	Debbie Drew	Brian Moldon	Withdrawn	High	Medium	
PEN0006	Pensions	Helping All Of Our Residents Enjoy A Good Quality Of Life	Operational	Breach of legislation - Data Protection, Human Rights, etc.	Debbie Drew	Brian Moldon	Treat	Medium	Medium	29/10/2016
PEN0007	Pensions	Helping All Of Our Residents Enjoy A Good	Operational	Fraud	Debbie Drew	Brian Moldon	Treat	Low	Low	29/10/2016

## London Borough of Waltham Forest Pension Fund Risk Register

Updated September 2016

		Quality Of Life							
		Helping All Of Our Residents Enjoy A Good Quality Of Life							
PEN0008	Pensions	Operational	Loss of IT / Communication facilities	Debbie Drew	Brian Moldon	Treat	Low	Low	29/10/2016



**THE LONDON BOROUGH OF WALTHAM FOREST  
PENSION FUND**

**PENSION ADMINISTRATION STRATEGY**

**September 2016**

## **INTRODUCTION**

This is the Pension Administration Strategy of the London Borough of Waltham Forest Pension Fund, administered by the London Borough of Waltham Forest (the Administering Authority). It has been prepared in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013, as amended. The strategy has been developed following consultation with employers who participate in the London Borough of Waltham Forest Pension Fund, schools who employ their own payroll providers and The Pension Shared Service partnership with 4 other London Boroughs Wandsworth, Richmond, Camden and Merton (hosted by the London Borough of Wandsworth) who undertaken the pensions benefit administration on behalf of the Fund from 1 February 2016.

The aim of the Pension Administration Strategy is to set out the responsibilities, quality and performance standards expected of the London Borough of Waltham Forest in its role as Administering Authority and scheme employer, as well as all other employers within the Fund (including for example Academies and private sector bodies) and the Pension Shared Service partnership in its pensions benefits administration role. The strategy seeks to promote positive working relationships, improve efficiency, quality and governance of the Fund.

The introduction of a new Local Government Pension Scheme from 2014 provides a further and important reason for the introduction of a Pension Administration Strategy as under a Career Average Scheme administration for the Administering Authority and employers will become significantly more complex. A Career Average scheme will require that the annual salaries of Active members are accurately provided in a timely manner by employers to the Administering Authority/ its shared service partners Benefits Administrators. This will be fundamental to the accurate calculation of benefits.

This Pension Administration Strategy also sets out the circumstances and procedures the Fund will apply, in accordance with Regulation 70 of the Local Government Pension Scheme Regulations 2013, as amended, for recovering costs from an Employer where costs have been incurred by the Fund because of an Employers' levels of performance in carrying out its functions under the Local Government Pension Scheme Regulations.

## **IMPLEMENTATION**

This Pension Administration Strategy has been subject to consultation with employing authorities in accordance with Regulation 59(4) of the Local Government Pension Scheme Regulations 2013, as amended. This document has been considered and approved by the Pensions Committee of the London Borough of Waltham Forest at its meeting held on 19<sup>th</sup> June 2013. Therefore this Pension Administration Strategy applies to the London Borough of Waltham Forest as both the Administering Authority and a scheme employer and to all other existing and future employers within Fund from 22 September 2015.

## **REGULATORY FRAMEWORK**

Under Regulation 59 of the Local Government Pension Scheme Regulations 2013, as amended issues that can be covered in a Pension Administration Strategy include:

- Procedures for liaison and communication with Employing Authorities.
- Establishing levels of performance which the Administering Authority and Employing Authorities are expected to achieve through performance targets or agreements about levels of performance.
- Procedures for improving communication.
- Circumstances in which the Administering Authority may consider giving written notice under Regulation 70 of the Local Government Pension Scheme Regulations 2013 of its intention to recover additional costs it has incurred as a result of unsatisfactory performance by an Employing Authority in carrying out its functions.
- The publication by the Administering Authority of Annual Reports in respect of performance achieved.
- Such other matters as, after due consultation, it considers to be suitable for inclusion in the Strategy

Once an Administration Strategy is approved it must be kept under review and revised if there are major changes to any matter covered in the strategy.

The Administering Authority must consult the Employing Authorities in preparing and revising the Pension Administration Strategy.

The Administering Authority must publish its Pension Administration Strategy and send a copy to each Employing Authority and the Secretary of State. Revisions must also be sent to Employers and the Secretary of State.

### **LIAISON AND COMMUNICATION BETWEEN THE FUND AND EMPLOYERS**

The London Borough of Waltham Forest Pension Fund has published a number of documents in respect of statements of policy and procedures including the following

- Communication Policy
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Annual Report

The delivery of an effective service by the Fund to scheme members and other stakeholders is not solely the responsibility of the London Borough of Waltham Forest in its role as Administering Authority. The Council in its role as Administering Authority and Employing Bodies have a joint role and responsibility to ensure a high quality cost effective administrative service is provided. Effective liaison and communication between the Administering Authority, Employing Bodies and The Pensions Shared Service (hosted by the London Borough of Wandsworth) (as at 1 February 2016) in its pensions benefit administration role is therefore crucial. Examples of the requirements

of both the Administering Authority and Employers in respect of liaison and communication are set out below:

### Designated Named Individual

Each Employing Body will designate a named individual to act as the main point of contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS). The name of the designated individual, plus a deputy to act in their absence, will be communicated to the Administering Authority and the Pension Shared Service in its role as pension benefits administrator. Each Employer will immediately inform both the Administering Authority and the Pension Shared Service of any change in respect of the main or deputy point of contact.

The key responsibility of the individual main point of contact will be to:

- Act as a link for communications to appropriate staff within the Employer – for example Human Resources, Payroll, the Director of Finance
- To ensure that standards and levels of service are maintained
- To ensure that details of all nominated representatives and authorised signatures are correct and to notify the Fund and the Pension Shared Service of any changes immediately
- To arrange distribution of communications literature as and when required
- To assure data quality and ensure the timely submission of data to the Fund and any of its agents including the Pension Shared Service and the Fund Actuary.
- To attend, if at all possible, seminars held by the Administering Authority

### Employer Seminars and Training

The Fund holds periodic Employer Seminars and Training events. At these sessions the Fund Officers, the Fund Actuary and the Pension Shared Service will provide information, advice and training on a range of issues including Administrative matters, the Actuarial Valuation process & Fund Finances and Investment approaches & performance. Attendance by each Employers main contact and Senior Management is strongly recommended.

### Policy Discretions

Each employer must produce, publish and maintain a statement of policy regarding the exercise of discretions available to them under the LGPS Regulations. This policy statement must be kept under review and where revisions are made the revised policy statement must be sent immediately following its approval to the Fund, the Pension Shared Service, and made readily available to all employees within the Employing Body.

### Internal Disputes Resolution Procedure

Each Employing Body is required to nominate and name the person to whom applications under Stage 1 of the Internal Dispute Resolution Procedure (IDRP) should be made. The name, job title and contact details of this nominated person must be communicated to both the Fund and the Pension Shared Service. Any changes in relation to the nominated person should be communicated to the Fund and the Pension Shared Service immediately.

## **PERFORMANCE STANDARDS**

Certain actions and decisions must be taken by either the Fund (Administering Authority) or the relevant employer, in relation to the rights and entitlements of individual scheme members. To meet these obligations the Fund (after consultation) has agreed Levels of Performance between itself and employers which are set out below and which take into account the requirements of overriding legislation, internal standards and timeliness.:

### **Overriding legislation**

The Administering Authority and employers will, as a minimum, comply with overriding legislation including:

- Local Government Pension Scheme Regulations
- Public Service Pensions Act 2013
- Pensions Act 1995
- Pensions Act 2004
- Freedom of Information Act 2000
- Data Protection Act 1988
- Finance Act 2004
- Health and Safety legislation
- Any other legislation that may apply at the current time

and any future amendments to the above legislation.

Where specified in this Pension Administration Strategy, the Fund and Employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation.

### **Internal standards**

The Fund and employers will ensure that all functions and tasks are carried out in accordance with the following quality standards:

- Compliance with all requirements set out in the Employers' Guide
- Information to be legible and accurate
- Communications to be in a plain language style
- Information provided to be checked for accuracy by an appropriate member of staff
- Information provided to be approved by an authorised member of staff
- Actions carried out, or information provided, within the timescales set out in this Pension Administration Strategy

### **Timeliness**

Overriding legislation and regulations set minimum standards that Administering Authorities and Employers within the LGPS must meet in providing certain information to the various parties associated with the Scheme. Local performance indicators, for the London Borough of Waltham Forest Scheme, have been determined, where appropriate going beyond the overriding legislative and regulatory requirements.

## Levels of Performance

Payment of monthly contributions to the fund - to be received by the fund by the 19<sup>th</sup> of the month following the deduction of the contributions.

Provision of monthly payroll schedules containing contribution information required - to be received by e-mail by the 19th of the month following the deduction of the contributions.

Provision of end of year payroll information - to be received by 30 April each year.

Provision of starter and leaver forms - to be sent to the funds benefits administrator within 5 working days of the event. Evidence that these forms have been sent is required by auditors in case of review. Copies of these documents should be retained by each employer.

## **RECOVERY BY THE ADMINISTERING AUTHORITY OF ADDITIONAL COSTS**

Regulation 70 of the Local Government Pension Scheme Regulations 2013, as amended, permits an Administering Authority to recover from an Employer any additional costs incurred as a result of the poor level of performance of that employer. Where an Administering Authority wishes to recover such costs they must give notice in writing setting out the reasons for considering that additional costs should be recovered, the amount of the additional costs, the basis on which the additional cost has been calculated and the provisions of the Pension Administration Policy which are relevant to the decision to levy additional costs.

The London Borough of Waltham Forest in its role as Administering Authority will seek to work with an employer to identify areas of poor performance, set out in writing areas of poor performance, meet with the employer, provide any necessary training and put in place an improvement plan.

Where however, after the provision of advice and assistance from the Administering Authority, poor performance continues then the additional costs incurred will be recovered from the Employer.

Circumstances where additional costs will be recovered from an Employer are:

- Ongoing failure to provide relevant information to the Administering Authority, the Pension Shared Service, the Fund Actuary, a scheme member or other interested party in accordance with specified performance targets either through failures in quality of information or timeliness of delivery.
- Failure to pass relevant information to scheme members or potential members either due to poor quality or failure to adhere to timescales in the performance targets of this strategy.
- Failure to deduct and pay over correct employee and employer contributions to the London Borough of Waltham Forest Pension Fund within the stated timescales.
- Where the performance of the scheme employer results in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman or any other regulatory body.

## **REVIEW OF THE PENSION ADMINISTRATION STRATEGY**

The London Borough of Waltham Forest in its role as Administering Authority will keep this strategy under review. At least every three years the Fund will undertake a formal review of the strategy in consultation with Employers.

A current version of the Pension Administration Strategy will be provided to the Secretary of State, Employers and will be available on the Fund website.

Updated September 2016