



**Audited Pension Fund Annual Report**  
**Lambeth Council • 2021/22**   
**Lambeth**

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# 1. Scheme Management and Advisors

# Scheme Management and Advisors

## ADMINISTERING AUTHORITY

London Borough of Lambeth

Administrator: Duncan Whitfield  
Interim Corporate Director of  
Finance and Governance (S151  
Officer)

## COUNCIL OFFICERS

Cagdas Canbolat Acting Director of Finance &  
Property (Deputy s151)

Robert Browning Head of Treasury and Pensions

Saul Omuco Deputy Head of Treasury and  
Pensions

Senimetu Yakubu Deputy Head of Treasury and  
Pensions

Sarah Hargraves Governance and Compliance  
Manager

Linda D'Souza Head of Payroll and Pensions

Kathryn Shore Interim Pensions Manager

## BANK

National Westminster Bank Plc

## LEGAL ADVISORS

Council Lawyers

## FUND MANAGERS

Adams Street Partners

Churchill Asset Management

Insight Investment

Invesco

London CIV

M&G Investments

Northern Trust

PAAMCO

Permira

RREEF

## AVC PROVIDERS

Clerical Medical

Prudential

Utmost Life & Pensions (Closed to new applicants)

## ADVISOR

Mercer Ltd

## CUSTODIAN

Northern Trust

## GOVERNANCE

Aon

## ACTUARY

Hymans Robertson LLP

## AUDITOR

Mazars LLP, UK



National Film Theatre  
Hayward Gallery

Queen Elizabeth Hall  
Royal Festival Hall

Festival Pier

National Theatre

2.

Report from  
the Chief  
Financial  
Officer

# Report from the Chief Financial Officer

## INTRODUCTION

Welcome to the 2021/22 Annual Report for the London Borough of Lambeth Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS), a national defined benefit public service scheme providing retirement benefits for local government employees and those working for other employers that participate in the scheme. Administered by Lambeth Council, the Fund provides retirement benefits to over 21,000 active, deferred and pensioner members who are currently or have previously been in paid employment for the London Borough of Lambeth and other participating bodies in the Fund.

The Fund's overriding objective is to ensure sufficient assets to pay benefits owing to members as and when they fall due. It collects contributions from employers and employees within the Fund and invests those over the longer term to achieve both investment income and capital growth. The Fund is governed in part by the policies and procedures of the council as prescribed in its constitution but operates as a separate statutory entity and, as such, must also adhere to separate rules and regulations specific to the LGPS.

Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires an administering authority to prepare and publish an annual report for the Fund it maintains by 1 December every year. The report must detail the management and financial performance of the Fund during the year, as well as arrangements made for its administration and governance. It should also include the Fund's annual statement of accounts and other key documents that set out its investment and funding strategies.

## PENSIONS COMMITTEE AND BOARD

The 2021/22 Lambeth Pension Fund Annual Report has been prepared in accordance with the regulations and in line with statutory guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is presented in the following pages following introductions from the Chairs of the Pensions Committee and Pensions Board respectively. These two bodies are responsible for the overall management of the Fund; the Pensions Committee has decision-making authority for all matters concerning governance, administration, and investment, whilst the Pensions Board sits in an advisory role independent of the Committee, assisting the council to secure compliance with the relevant regulations relating to the scheme.

The membership of these bodies is made up of elected councillors and scheme members who serve terms of four years in their respective roles. 2021/22 was the last year of service on the Committee and Board for many of the councillors in particular, and I wish to place on record my thanks for their efforts in ensuring the Lambeth Fund has continued to perform well over their tenure and for furthering its reputation as a leader in the LGPS. Following the local elections in May 2022, a new cohort of councillors will be appointed to each body and will work with officers to ensure a seamless transition in the year ahead.

## TRIENNIAL VALUATION

The results of the most recent triennial valuation of the Fund as carried out by its actuary as at 31 March 2022 indicated a funding level of 96%, compared to 82% as at 31 March 2019. The funding position is a statistic often quoted to give an indication of the health of the Fund at a given point in time, indicating the extent to which the Fund's assets might meet its future funding liabilities. The funding position as at 31 March 2022 has improved largely as a result of excellent investment returns over the previous three years. The next valuation will be undertaken as at 31 March 2025.



## MEMBERSHIP

Membership over the three-year valuation period has largely remained stable although the profile of membership has changed, with the number of active members decreasing by approximately 12% and deferred and pensioner members increasing by 3% and 5% respectively. The Fund continues to be cash negative and the net cash withdrawal in 2021/22, excluding asset management expenses, was £7.6m (£11.5m in 2020/21). The combination of these membership changes and net cash outgoings means the Fund must continue to prioritise opportunities for income generating investments.

## INVESTMENT STRATEGY

Aligned with the latest triennial valuation will be a review of the Fund's investment strategy. The value of the Fund increased by approximately 3%, or £54m, in 2021/22 from £1,788m to £1,842m (compared to an increase of 25% in 2020/21). The Fund underperformed its benchmark for the year of approximately 7%, although it continues to outperform the three-year benchmark and is in line with its five-year benchmark. Global equities, particularly the Fund's growth and emerging market equities, have been the largest detractors to performance over the year, where the continued impact of COVID-19 on market sentiment has been supplemented by concerns over rising inflation and the geopolitical impacts of Russia's invasion of Ukraine. As interest rates have increased and concerns raised over the sustainability of high rates of growth, those high-growth companies to which the Fund has exposure have been disproportionately affected.

Over the course of 2021/22 the Fund addressed an overweight position in its equity investments by selling £143m of holdings across its global alpha growth and sustainable equity funds, bringing its actual allocation down from 40% of the Fund to its target 30% allocation. There was an additional investment of £45m into the Liability-Driven Investment (LDI) portfolio to bring this up to its target allocation of 15%, and at the same time the hedge ratio of the portfolio against interest rate and inflation risk was increased to 20% of the Fund's liabilities. In addition, the Fund completed its subscription to two new private debt funds with its existing managers, committing a further £135m of investment which will be called by the managers over a period of several years.

The Fund will consider its investment strategy together with its advisers and make any changes as deemed appropriate to best fulfil its funding requirements. An additional consideration this year will be how the Fund can incorporate actions into its strategy to meet its 2040 net zero target, including the transition to low-carbon mandates. The growing climate crisis, and a recognition of the role that the LGPS can play in addressing high carbon emissions, were key factors in the Fund announcing its target in January 2022, which also aligns with the Fund's pooling vehicle, the London CIV.

## POOLING

The London CIV is the pooling company established in 2015 for London LGPS funds and is responsible for implementing the government's pooling agenda, the objective of which is to achieve savings over the longer-term through collective investment and therefore lower management fees and more effective central management of Fund assets. The Lambeth Fund is one of the most heavily pooled Funds in London, with approximately 54% of the Fund's assets invested through the CIV which, in 2021/22, resulted in an estimated cost saving of £1.1m (£1.0m in 2020/21). The Fund remains committed to working with the CIV to develop and launch products that meet its needs.

## THE YEAR AHEAD

2022 should prove to be another eventful year for the Fund and the wider LGPS, not least due to the valuation process and revisions to the investment strategy but also due to the wide range of outstanding consultations and policy changes yet to be implemented. These include expected consultations on levelling up, climate risk and reporting requirements, and updated pooling guidance; implementation of the Good Governance Project proposals; and the launch of the Pensions Regulator's single code of practice. I am confident that the Fund is in a strong position to respond to these challenges in a way which continues to prioritise the interests of its members whilst maintaining its status as an innovative and leading Fund within the LGPS.



**Duncan Whitfield**  
Interim Corporate Director of Finance and  
Governance  
Section 151 Officer  
London Borough of Lambeth  
Date: 1st December 2023





**3.**

# Report from the Pensions Committee Chair



# Report from the Pensions Committee Chair

## INTRODUCTION

As Chair of the Lambeth Pensions Committee I am pleased to introduce the Pension Fund's Annual Report and Accounts for 2021/22. The last twelve months have been turbulent as markets respond to the ongoing impact of, and recovery from, COVID-19, as well as emerging global inflationary pressures and more recently the geopolitical risks posed by the war in Ukraine. Whilst 2020/21 saw strong growth in the value of the Fund as markets rebounded, performance in 2021/22 has been more muted, largely as a result of underperforming equity holdings.

Whilst our focus has rightly continued to be ensuring our Fund is well placed to meet these challenges and deliver for its members, we are also proud of the work we have led on responsible investment which has seen us become the first London LGPS Fund to be announced as a successful signatory to the UK Stewardship Code. We also agreed our 2040 net zero carbon emissions target for the Fund, reflecting the urgency of the carbon crisis as well as the work that we've already undertaken to reduce the Fund's emissions. We have one of the lowest exposures to fossil fuels in the LGPS, with no direct exposure and less than 1% of the Fund with indirect exposure.

## INVESTMENT STRATEGY REVIEW

Following the triennial valuation in 2019 the Lambeth Pension Fund adopted best practice (similar to that of the private sector) by being one of only a handful of Local Government Pension Scheme (LGPS) Funds to review its investment strategy alongside the triennial valuation. A revised investment strategy was adopted by the Committee in March 2020, and officers of the Fund have worked with the Fund's actuary and investment advisor throughout 2021/22 to continue to adhere to that strategy, building on the Fund's previous success. Following the completion of the 2022 valuation exercise, the investment strategy will be comprehensively reviewed to best position the Fund to meet its funding liabilities. The new strategy is likely to be published later in 2022/23.

## FUND PERFORMANCE

The value of the Lambeth Pension Fund increased during the year by approximately £54m to a net asset value of £1,842m as at 31 March 2022. The Fund's assets earned a return of approximately 3% over the year ending 31 March 2022 against a benchmark of approximately 7%, which compares to a 25% return in 2020/21. Underperforming global equities have been the primary driver of this year's below benchmark returns, in a difficult market environment characterised by volatility and uncertainty. Investment management costs as a percentage of Fund value over the past year is 0.42%, a reasonable cost considering the fund is 100% actively managed.



## LONDON COLLECTIVE INVESTMENT VEHICLE (CIV)

In line with government guidance on asset pooling within the Local Government Pension Scheme, the Lambeth Pension Fund committed to, and is a shareholder of, the London CIV. As well as the cost savings that come from pooling assets at scale, the creation and ongoing operation of the CIV has also helped to foster and improve collaboration between London boroughs in developing mandates that meet the respective Funds' objectives. Currently the Fund has around £1,002m, or 54% of Fund assets, managed via the CIV. It is the Fund's intention to continue to follow government guidance and to consider investing through the CIV in the first instance for all new investments, and to work with the CIV in developing new mandates that meet the objectives of the Fund's investment strategy.

## GOVERNANCE

A Pensions Committee was created with full decision-making powers in April 2015. The Committee is all-encompassing and has responsibility for all Fund matters including governance, investments, funding, accounting, employer and scheme member engagement, communications, and administration. Best practice within the LGPS is to have a diverse Committee; the Lambeth Fund has already moved to meet these requirements and draws its membership from "interested parties" as follows:

- Five elected councillor members (plus two substitutes)
- One employee representative (who is a member of the Fund)
- One pensioner representative (who is a member of the Fund)
- One trade union representative

All training needs are regularly assessed and delivered in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. As part of the governance and oversight of the Pension Fund, a regular review and update to the Fund's policies and procedures and governance framework is essential to ensure compliance with latest legislation, guidance, and best practice. The Fund last commissioned an independent review of its governance arrangements in 2018 and, having completed an action plan to make improvements, will seek to commission a follow-up review by the end of 2022/23 financial year, having delayed plans to do so in 2021/22 whilst awaiting further clarity on the impact of new guidance and codes of practice issued by government and the Pensions Regulator.

The Pensions Act 2013 also requires a mandatory Pensions Board to be in place. The role of the Board is to review the diligence of decision-making but not the decisions themselves, and to assist the administering authority in securing compliance with regulations relating to the governance and administration of the scheme. Cllr Bray, the Chair of the Pensions Board, has reported on the activities of the Board separately within this report.

## RESPONSIBLE INVESTMENT

The Fund continues to focus on and embed responsible investment principles into all activities of scheme management, and as a responsible asset owner it monitors and maintains oversight of its investment managers in relation to Environmental, Social and Corporate Governance (ESG) issues and the exercising of voting rights and overall stewardship obligations. This includes the regular monitoring and scoring of managers' ESG credentials and the steps taken to improve those scores, using research information from our investment consultants.

In January 2022 the Pensions Committee voted unanimously to adopt a 2040 net zero carbon emissions target for the Fund. The target reflects both the work already undertaken by the Fund to reduce its carbon emissions, and the recognition that urgent and ambitious action is necessary to continue to address the climate crisis whilst meeting our fiduciary duty owed to the Fund's beneficiaries. Further information on how the Fund plans to meet its target will be set out in 2022/23.

In March 2021 the Fund was also announced as a successful signatory to the UK Stewardship Code, one of a small number of LGPS Funds to be awarded this status and the first LGPS Fund in London. Signatory status recognises that the Lambeth Fund demonstrates high standards for the way it invests its money on behalf of its members, evidencing compliance against a wide range of principles concerning the responsible allocation, management, and oversight of funds.

The Fund will continue to further develop its ESG policies and approach to responsible investment into 2022/23, including preparation for reporting against the Task Force on Climate-related Financial

Disclosures (TCFD). Responsible investment training is regularly provided for Members and officers, with further training expected in 2022/23.

As of 31 March 2022, the Fund has no direct exposure to fossil fuels and has one of the lowest indirect exposures in the LGPS. Members and officers continue to engage with investment managers, the London CIV, and through other member bodies and national forums on the issues of responsible investment.

## EMPLOYERS IN THE FUND

The Fund continues to proactively engage with its employers. Meetings with employers have focussed on maintaining steady contribution rates, and over the course of the next year will focus on the triennial valuation and the impact of the revised funding strategy on employers.

## PUBLICITY

Over the year Members and officers have represented the Fund at various events, and actively engaged with representative bodies and regulators in relation to legislative developments within the LGPS as and when they arise.

## OUTLOOK

For local authority pension schemes the outlook over the short term is uncertain; continued high inflation, the looming threat of recession, and the ongoing impact of the Russian invasion of Ukraine, present a great deal of market uncertainty. The Fund remains cash flow negative and so over the longer term there remains a need for prudence, given not only continuing growth in liabilities and an unpredictable investment environment but ongoing government reviews of the pension and investment regulatory framework.

The Fund's primary objective remains the payment of pension benefits as and when they fall due, but with a focus on income generation and managing cash flows. The responsible investment of the Fund's assets, including the transition to net zero carbon emissions, is also a key consideration to be incorporated into the forthcoming triennial valuation and investment strategy review.

This report signs off my tenure as Chair of the Pensions Committee; I wish to thank my fellow Committee members, Board members, and Fund officers for their efforts over this past year and indeed previous years, in dealing with the challenges faced by the Fund and, in particular, for furthering the Fund's focus on responsible investment and stewardship. I am confident the Fund is well placed to meet the challenges it will face in the coming years, and I wish every success to the new Chair of the Pensions Committee and its members.

**Cllr. Anna Birley**

Chair – Lambeth Pensions Committee





4.

Report from  
the Pensions  
Board Chair

# Report from the Pensions Board Chair

As the Chair of the Lambeth Pensions Board I am very pleased to talk about the Board which has been in operation since 2015.

## STRUCTURE AND ATTENDANCE

The Board was established in accordance with Section 5 of the Public Service Pensions Act 2013 and under regulation 106 of the Local Government Pension Scheme Regulations 2013, holding its first meeting on 8 July 2015. The Board consists of three representatives of the scheme employers, and three representing scheme members. The employer representatives are serving Lambeth councillors and the scheme member representatives consist of a) one person nominated by the Unions as an employee representative b) one pensioner representative currently in receipt of a pension from Lambeth's Pension Fund and c) one Lambeth Council staff member representative who is also a member of the Lambeth Pension Fund.

Details on the Pensions Board's current representatives are held on the Council's website at the following link:

<https://modern.gov.lambeth.gov.uk/mgCommitteeDetails.aspx?ID=733>

The Board met on four occasions during the year ending 31 March 2022; all meetings were quorate.

## FUNCTIONS AND OPERATION OF THE BOARD

The two primary functions of a Local Pensions Board are to assist the Administering Authority to:

- Ensure effective and efficient governance and administration of the Local Government Pension Scheme Regulations 2013; and,
- Ensure compliance with relevant laws and regulation.

It therefore has a monitoring remit, rather than being a decision-making body; it could be described as a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives.

The Board is effectively helping to manage the reputational risk of the Fund and Administering Authority, which are under considerable scrutiny from several stakeholders as well as the two main oversight bodies: The Pensions Regulator (TPR) and the Department for Levelling Up, Housing and Communities (DLUHC).

The Board operates under its own Terms of Reference which were approved at its inception and included in the council's Constitution. The Board recognises the need to prioritise and identify items for detailed discussion as opposed to those for awareness or noting, and prioritises its time accordingly.

## SCHEME DOCUMENTS

During the last year the Board reviewed scheme policies and a range of key documents covering the items captured in the work plan below.



## TRAINING

Each Board member must be conversant with the details of the scheme, which translates as having a good working knowledge. The Fund offers several training opportunities for Board members on an ongoing basis.

Assessment of training needs and how they are met is a standing item on the Board's agenda; both formal and informal training is considered.

## WORK PLAN

In considering the work of the Board to ensure the continued good governance of the scheme, the following key areas have been highlighted during 2021/22 and members will prioritise reviews based on information received from quarterly compliance updates.

- Meeting existing and new legislative requirements
- Improving data quality
- Ensuring strength in employer covenants
- Admission and cessation of employers to the Scheme
- Statement of Accounts
- Administration
- Communications
- Audit and Risk Management
- Governance
- Training

All Pensions Board papers and minutes are held on the Council's website at the following link:

<http://modern.gov.lambeth.gov.uk/ieListMeetings.aspx?Committeeld=733>

As the Chair of the Lambeth Pensions Board I would like to thank my Board member colleagues who are committed to volunteering their time and energies towards the role. I would also like to express my thanks to the Pensions Committee and the Council's Officers for their commitment and hard work in maintaining all administrative aspects of the Fund.

**Cllr. Linda Bray**

Chair – Lambeth Pensions Board



# 5. Risk Management

# Risk Management

The Fund recognises that the primary long-term risk it faces is that its assets fall short of its liabilities such that there are insufficient resources to pay promised pension benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances; the aim is to optimise the likelihood that pensions and other benefits can be paid as and when they fall due.

The Fund recognises that there are a number of risks that must be considered, monitored, and managed to ensure it can meet its primary objective of providing benefits to its members. These risks have been grouped under investment, financial, demographic, and regulatory risks, and have been identified and addressed in the Fund's Investment Strategy Statement and Funding Strategy Statement.

The Investment Strategy Statement addresses the financial risks to the Fund, in particular the risk that the Fund's assets do not perform in line with the actuary's expected rate of return. In considering its investment strategy the Fund must bear in mind the balance between risk and return which in practice will mean targeting the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk-based activity where the returns achieved by different assets will reflect differing levels of investment risk. There are a number of such risks to consider within the Fund as set out in the following paragraphs.

## SOLVENCY RISK AND MISMATCHING RISK

These risks are measured through a qualitative and quantitative assessment of the expected growth of Fund assets relative to its liabilities and are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

## MANAGER RISK INCLUDING THE LONDON CIV

This is assessed as the expected deviation of the target risk and return, as set out in the managers' investment objectives, relative to the investment policy. It is measured by monitoring the deviation of actual returns relative to the target, as well as other factors supporting the managers' investment processes; if necessary, managers may be replaced where concerns exist over their ability to deliver their investment mandate.

The aim of the investment strategy and management structure is to manage the level of risk necessary to achieve the required benchmark return as set out in the Funding Strategy Statement. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safekeep the Fund's assets on behalf of the Fund.



## LIQUIDITY RISK

This is monitored according to the level of cash required by the Fund over a specified period and is managed by holding an appropriate amount of readily realisable investments. The majority of the Fund's assets are invested in liquid assets which are readily realisable, whilst investments in illiquid assets include those in property, private equity, and private debt.

## CORPORATE GOVERNANCE RISK

This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance. It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders or partners, which should ultimately be to the Fund's advantage.

## LEGISLATIVE RISK

This is the risk that legislative changes will require action from the Committee in order to comply with any such changes. The Committee acknowledge that this risk is unavoidable but will seek to promptly address any legislative changes to ensure the Fund remains compliant.

## MARKET RISK

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund seeks to manage this risk through its strategic asset allocation which ensures diversification of investments across a range of asset classes and markets that have a low correlation with each other, as well as diversification of managers. Market risk comprises of interest rate, inflation, and currency risk.

## FINANCIAL RISKS

Action is taken to review performance against the investment strategy on a regular basis in accordance with LGPS regulations. The Fund's financial management framework is the same as that of Lambeth Council. Council officers monitor the budget, which is set annually as part of the three-year forward-looking service plan. The financial accounting system is integrated with the council's, and the segregation of duties and control structure is agreed with, and annually reviewed by, Internal Audit. A key financial risk is the non-payment of contributions by employers. The regulations provide for sanctions to be issued for late payments, and processes are in place to ensure that contributions are reconciled regularly, and any non-payment resolved promptly.

## ADMINISTRATION RISKS

The administration risks relate mainly to the obligation to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risk are non-payment or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations, and failure to comply with Freedom of Information requests. Such risks can lead to adverse publicity, loss of reputation and ultimately statutory fines. These are addressed in the Fund's Business Continuity Plan.

## RISK MANAGEMENT POLICY AND REGISTER

The Fund also has a Risk Management Policy detailing the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund and, in particular, attitudes to and for risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

A formal record of risks is recorded in the Fund's Risk Register. The Risk Register, including any changes to the internal controls, is presented to the Pensions Committee on at least an annual basis or more regularly if a significant risk emerges. The Pensions Board receives an update at each meeting, enabling Board members to provide comment and input to the management of risks.





# 6.

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# Investment Strategy

# Investment Strategy

The introduction of LGPS asset pooling has changed the way Funds make investment decisions; Lambeth's investment strategy is now geared towards pooling its assets with the London Collective Investment Vehicle (CIV) and as at 31 March 2022 approximately 54% of the Fund's assets had been pooled.

Following the 2019 triennial valuation the Fund introduced a new approach to setting its investment strategy, aligning it with the funding strategy and contribution plan and basing all three on a sophisticated model but crucially applying a practical, qualitative (human) overlay. Contribution rates and the investment strategy were considered in tandem, balancing risk with the need for stability in terms of certainty with regard to contribution rates; as a result the council, being the largest employer in the Fund (96% of the total Fund), achieved more certainty going forward. The cash flow position was also considered at the same time via an in-house assessment of future cash flows.

As a mature Fund, and to provide sufficient protection against inflation and interest rate risk, the Fund implemented a Liability-Driven Investment strategy (LDI) in late 2016. The strategy was approved by the Pensions Committee back in 2010 as part of a strategy review at the time, but its implementation was delayed due to unfavourable market conditions; this strategy is managed by Insight Investment.

Further changes to the investment strategy were approved in March 2020 and were implemented over the previous two financial years. These included the termination of the Fund's diversified growth strategies, further investment into multi-asset credit (including the appointment of a new manager, M&G),

and additional commitment to private debt. In addition, during 2021/22 the Fund increased the hedge ratio of its LDI portfolio to 20% of liabilities. As at 31 March 2022 the Fund invests its assets through ten external managers (four via the London CIV) across seven different asset classes.

The Fund holds asset managers accountable for decisions on asset allocation within the mandates under which they operate, and managers are challenged robustly and formally by the Pensions Committee on any proposed changes to asset allocations. Managers' performance is reviewed at each Committee meeting in discussion with the investment advisor and officers, and they are also called to Committee meetings where necessary. Officers meet managers regularly and advice is taken from the investment advisor on matters relating to manager arrangements and performance.

During 2021/22, the Fund's net asset value increased by approximately £54m, driven by a £29m unrealised gain from an increase in the market value of assets. The table below provides a breakdown of the Fund's investments by asset manager as at 31 March 2022, including the current benchmark asset allocations per the investment strategy against the actual year-end allocations (with prior year comparator); further information on the investment strategy can be found in the Investment Strategy Statement (see *Appendix 2*).

## ASSET ALLOCATIONS BY MANAGER 2021/22

Asset Class	Manager	Market Value 31 March 2022 (£m)	Benchmark Allocation (%)	Actual Allocation 31 March 2022 (%)	Actual Allocation 31 March 2021 (%)
Private Equity	Adams Street	74.9	5.0	4.1	4.1
Property	Invesco	170.1	15.0	9.2	8.9
LDI	Insight	281.2	15.0	15.2	12.4
Global Equities	London CIV - Baillie Gifford	285.8	15.0	15.5	22.7
Global Equities	London CIV - RBC	310.2	15.0	16.8	17.5
Emerging Market Equities	London CIV - JP Morgan	171.9	10.0	9.3	10.7
Multi-Asset Credit	London CIV - CQS	234.9	12.0	19.4	19.7
	M&G	123.8			
Private Debt	Churchill Asset Management	46.2	12.0	4.3	2.6
	Permira	33.6			
Cash	Cash and Net Current Assets	105.0	1.0	5.7	1.0
	Insight MMF	5.0			
SPV	PAAMCO	0.1	-	0.0	0.0
Equity	London CIV	0.2	-	0.0	0.0
	<b>Total</b>	<b>1,842.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INTEGRATION

Best management practice includes assessing, reporting, and addressing material risks associated with corporate governance and environmental and social issues. Companies should have regard to the environmental and social impacts of their activities in all their decisions, as approaches that aim for positive environmental and societal outcomes are usually also good for businesses in the long run. Where the Fund considers that disclosure on these risks is inadequate, the Fund will generally support requests for improved disclosure from its investment managers.

Paragraph 7(2)(e) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to set out how social, environmental, and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of assets

- The London Borough of Lambeth Pension Fund is a long-term active investor that takes a serious approach to fostering stewardship; the Fund believes that sound corporate governance contributes to long-term value for its members. The Fund's Investment Strategy Statement sets out in greater detail the Funds' philosophy on corporate governance and its approach to voting on behalf of members.
- Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section six of the Fund's Investment Strategy Statement.
- The Fund requires its investment managers to integrate all material financial factors, including

environmental, social, corporate governance and ethical considerations into the decision-making process for all Fund investments. It expects its managers to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

- The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to integrate material ESG factors into its investment analyses and undertake appropriate monitoring of current investments for any ESG issues which could present a material financial risk to the long-term performance of the Fund.
- All managers within the Fund are monitored regularly against ESG criteria to ascertain the extent to which they incorporate ESG and active ownership into their core processes, and whether they can provide clear evidence that ESG overall, or a particular theme, is core to idea generation and portfolio construction. Those managers that rank poorly against their peers in their relevant asset classes will be questioned by officers and the Committee on their plans to improve their ESG Integration.
- The Fund is a member of the Local Authority Pension Fund Forum, a membership group of LGPS funds that promotes and campaigns on high standards of corporate governance and sustainable investment, through which the Fund can engage and collaborate on such issues.
- The Fund is also a signatory to the UK Stewardship Code 2020, a voluntary code which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund's

first Stewardship Report sets out how, amongst other things, it manages stewardship, investment and ESG integration, and how it exercises its rights and responsibilities. The report is available on the Fund website at the following link:

<https://lgpslambeth.org/resources/lambeth-pension-fund-stewardship-report-2021/>.





7.

# Financial Performance



# Financial Performance

In 2021/22 the value of the Fund increased by approximately £54m (3%) to stand at £1,842m at 31 March 2022 (£1,788m at 31 March 2021). The Fund's investments in European property, private debt, and the LDI portfolio performed above benchmark in the year, whilst all the other asset classes failed to meet expected performance levels.

Net of fees, Fund performance in 2021/22 was approximately -5.2% below benchmark; however, it performed above benchmark in the three-year period by 0.8% and in line with the benchmark over the five-year period, as shown in the table below.

Asset Class	1 Year Performance		3 Year Performance		5 Year Performance	
	Fund (%)	Benchmark (%)	Fund (%)	Benchmark (%)	Fund (%)	Benchmark (%)
Global Equity	1.1	14.1	17	14.2	13.8	11.2
Emerging Markets Equity	(10.4)	(7.1)	4.5	4.6	--	--
European Property	9.9	8	2.2	8.0	3.4	8.0
UK Private Rented Sector Property	7.4	20.9	3.8	6.3	--	--
Multi-Asset Credit	1.8	4.1	3.1	4.4	--	--
Private Debt	7.1	4.1	5.9	4.4	--	--
LDI	6.2	6.1	(3.2)	(3.3)	(1.8)	(1.9)
<b>Total (excluding -Private Equity)</b>	<b>2.1</b>	<b>7.3</b>	<b>8.8</b>	<b>8.0</b>	<b>6.7</b>	<b>6.7</b>

As at 31 March 2022 the Fund had approximately £1,002m pooled through the London CIV, achieving an estimated annual fee saving £1,148k.



## CASH FLOWS

The Fund's cash flows from dealing with members showed a net outflow in the year of £7.5m; the Fund received £58.4m in contributions and transfers in but paid out £65.9m in benefits and transfers out. Total income received by the Fund, including investment income, was £102.9m whilst total expenditure incurred, including management expenses, was £75.8m.

	2021/22 £000	2020/21 £000
Income	102,920	85,774
Expenditure	(75,772)	(78,508)
<b>Surplus for the year</b>	<b>27,148</b>	<b>7,266</b>

The Fund's contribution income is largely used to pay retirement benefits. Following the triennial valuation undertaken as at 31 March 2019 there was a small increase in the annual deficit contribution paid by the council to the Fund of £0.5m, from £12m to £12.5m. Within the year there has been an increase in benefits paid, and it is projected that in the long run this trend will contribute to an increase in the gross pension liability; this is due to the enhanced redundancy offer made by the council in 2016/17.

During the year the Fund used cash distributions from its property investments (approximately £3.6m) and part of its private equity distributions to meet its cash flow needs; the remainder of the investment income received was reinvested back into the relevant Fund assets.

The table below provides a further breakdown of the Fund's cash flows in 2021/22.

Cash Movement	£000
Contribution's receivable:	
• from employers	44,642
• from employees	11,092
• from employees transferring from other pension funds	2,648
Income earned on investments	44,539
<b>Total inflow</b>	<b>102,920</b>
Benefits payable:	
Pension payments	(50,604)
Lump Sum payments due upon retirement	(6,916)
Lump Sum death benefits	(1,962)
Payments to and on account of leavers:	
Refunds to employees who leave the scheme	(151)
Payments where employees transfer to other funds	(6,290)
Tax paid on Investment Income	0
Management expenses	(9,850)
<b>Total outflow</b>	<b>(75,772)</b>
<b>Net cash flow</b>	<b>27,148</b>

## TRIENNIAL VALUATION

The funding level as at 31 March 2022, the most recent triennial valuation, was 96% as detailed in the table below, up from 82% as at 31 March 2019 and largely due to better than expected investment returns. Although total liabilities increased over the period, reflecting a significant increase in short-term future inflation expectations, a proportionately larger increase in asset values has resulted in the funding deficit reducing from £307m to £79m. The next formal valuation will take place as at 31 March 2025.

	Valuation Date	
	31 March 2022 (£)	31 March 2019 (£)
<b>Past Service Liabilities</b>		
Employees	490	397
Deferred Pensioners	550	543
Pensioners	881	807
Total Liabilities	1,920	1,747
Assets	1,842	1,439
Surplus/(Deficit)	(79)	(307)
Funding Level	96%	82%

## ASSETS

As part of the 2019 triennial valuation the Fund carried out a review of its investment strategy to understand how assets are positioned to meet the Fund's objective to be fully funded within twenty years, and a revised investment strategy was derived to help reduce pressure on employer contribution rates, especially for the council as the administering authority and largest employer in the Fund (responsible for 96% of the Fund's liabilities). In 2021/22 the Fund continued to implement those changes to its strategy, which will be reviewed in the context of investment performance and funding level when the investment strategy is updated following the 2022 valuation exercise.

## LIABILITIES

In order to place a current value on future benefit payments made from the Fund, an assumption about future investment returns is required in order to discount future benefit payments back to the valuation date.

In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the assets already held at the valuation date. It must incorporate a degree of prudence and is set with reference to the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from government bonds over the long term.

The discount rate set as part of the 2019 valuation exercise covering periods up to 31 March 2023 was 3.1%.

## MEMBER CONTRIBUTIONS

In 2021/22 all non-Lambeth Council employers paid their pension contributions by the due date, with no interest therefore chargeable for late payment. For several years the council has participated in the National Fraud Initiative (NFI); where overpayments have been identified, for example where a pensioner has died, action has been taken to arrange recovery in line with Fund policies.



8.

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# Administrative Performance



# Administrative Performance

The Lambeth Pension Fund has an in-house team to manage its administration function. The team of nine staff provide pensions services and manage the records of over 21,000 Scheme members across 28 active employers as at 31 March 2022. Key achievements of the team in 2021/22 include the continued processing of member benefits during the COVID-19 pandemic, ensuring that employer membership and cashflow data was provided to the Fund in a timely manner, and finalising the lengthy Guaranteed Minimum Pension reconciliation and rectification process.

## PERFORMANCE AGAINST LGPC TARGETS 2021/22

The table below details the key administration performance indicators used for the year.

Performance indicator (from point at which all required information has been received)	LGPC Target	Achieved %
Letter detailing transfer in quote	10 days	77.0
Letter detailing transfer out quote	10 days	80.0
Process and pay refund	5 days	98.0
Letter notifying estimate of retirement benefits	10 days	87.0
Process and pay lump sum retirement grant	5 days	92.0
Calculate and notify deferred benefits	10 days	93.0

## FIVE-YEAR ANALYSIS OF MEMBERSHIP DATA

The table below shows the movement in Fund membership over a five-year period. The increase in pensioner members is largely due to retirements from active membership and deferred pensions becoming due for payment.

Description	31 March 2022	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Active	4,953	5,013	4,946	5,660	5,386
Deferred pensioner	8,617	8,460	8,410	8,337	8,257
Pensioner	7,806	7,455	7,686	7,444	7,235
<b>Total</b>	<b>21,376</b>	<b>20,928</b>	<b>21,042</b>	<b>21,441</b>	<b>20,878</b>

Key documents for the Fund, including the discretionary policy statement, can be found on the Fund website <https://www.lgpslambeth.org>.

The Fund's Internal Dispute Resolution Procedure (IDRP) is based on standard guidance for all LGPS Funds. Stage 1 cases are reviewed by the Director of Human Resources & Organisational Development, and Stage 2 cases by the Director of Legal Services & Human Resources. In the financial year 2021/22 there was one case reviewed.

The following table provides a membership breakdown of the Fund's employers as at 31 March 2022.

<b>Employer</b>	<b>Active</b>	<b>Deferred</b>	<b>Pensioner</b>
Lambeth Council	4,460	8,295	7,741
Angell Town RMO	10	0	0
Blenhein Gardens	3	4	3
City Height E-ACT	38	15	0
Dunraven Education Trust - Elmgreen	62	24	5
Dunraven Education Trust – Rosendale	47	34	10
Elfrida Rathbone Society (Lambeth)	2	0	0
Evelyn Grace	32	55	6
ExcelCare	1	5	7
Fortem Solutions Ltd.	3	0	0
Future Academy Trust	14	3	0
Harris Academy Clapham/ Harris Academy Clapham Sixth Form	21	0	0
Kings College London	9	0	0
Lambeth Academy	40	70	9
Metra Housing	0	5	1
Oasis Academy – Johanna	21	13	1
Oasis Academy – South Bank	48	20	0
Parallel Learning Trust	32	34	11
Research Machines	1	0	0
SDBE – Christchurch	10	7	0
SDBE – St Leonards	28	2	1
SDBE – St Luke’s	10	1	3
Serco Ltd.	14	0	1
Southbank Engineering	12	4	0
Stockwell Academy	32	26	7
Wates Property Services Ltd.	2	0	0
Young People Matter Ltd.	1	0	0
	<b>4,953</b>	<b>8,617</b>	<b>7,806</b>

Zaro's Afro Caribbean Fresh Fruit & Veg

9.

# Actuarial Report on the Fund



# Actuarial Report on the Fund

## INTRODUCTION

CIPFA's Code of Practice on Local Authority Accounting 2021/22 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Lambeth Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

## PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Year ended	31 March 2022	31 March 2021
Active members (£m)	652	782
Deferred members (£m)	709	795
Pensioners (£m)	975	927
<b>Total (£m)</b>	<b>2,336</b>	<b>2,504</b>

The promised retirement benefits at 31 March 2022 are based on the results of the 31 March 2022 funding valuation using the Fund's membership as at 31 March 2022.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

## ASSUMPTIONS

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. I estimate that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £156m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £10m.

## FINANCIAL ASSUMPTIONS

Year ended (% p.a.)	31 March 2022	31 March 2021
Pension Increase Rate	3.20%	2.85%
Salary Increase Rate	3.70%	3.35%
<b>Discount Rate</b>	<b>2.70%</b>	<b>2.00%</b>

## DEMOGRAPHIC ASSUMPTIONS

The longevity and demographic assumptions have changed since the previous IAS26 disclosure for the Fund and are in line with the 31 March 2022 funding valuation.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current pensioners	21.5 years	24.3 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.0 years	25.9 years

## SENSITIVITY ANALYSIS

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

<b>Change in assumption at 31 March 2022</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount (£m)</b>
0.1% p.a. decrease in the Discount Rate	2%	41
1 year increase in member life expectancy	4%	93
0.1% p.a. increase in the Salary Increase Rate	0%	3
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	37

## PROFESSIONAL NOTES

This paper accompanies the 'Accounting Covering Report – 31 March 2022' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

### Steven Law FFA

For and on behalf of Hymans Robertson LLP

25 May 2023



**10.**

# Governance Compliance Statement



# Governance Compliance Statement

## INTRODUCTION

The requirement for a governance compliance statement is provided for by Regulation 55 of the Local Government Pension Scheme Regulations 2013, which states that the administering authority of a Fund must prepare a written statement setting out where the authority delegates its function, or part of its functions under the Regulations to a committee, a sub-committee, or an officer of the authority.

At the London Borough of Lambeth Pension Fund the Pensions Committee, 'the Committee', is the designated body for discharging the council's functions in relation to the scheme. It is the main decision-making body of the Fund, with responsibility for all Fund matters including governance, investments, funding, accounting, employer and scheme member engagement, communications, and administration.

The Public Service Pensions Act 2013 also requires mandatory local pension boards to be in place. The role of the Pensions Board, 'the Board', is to review the diligence of decision-making but not the decision itself.

Both the Committee and Board came into effect on 1 April 2015 and, in line with other council committees, member appointments are reviewed annually but appointed in line with the guidelines set out in their terms of reference. During 2021/22 there were membership resignations on both the Committee and Board which, at 31 March 2022, resulted in a pensioner representative vacancy on the Committee and an employee representative vacancy on the

Board. Both positions will be advertised for after the May 2022 local elections.

Both the Committee and the Board have a responsibility to work within, and ensure compliance to, a range of pensions legislation and guidance (referred to henceforth as 'the Regulations') which includes, but is not limited to:

- The Public Service Pensions Act 2013;
- The Local Government Pension Scheme Regulations 2013;
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; and
- The Pension Regulator's Code of Practice No 14: Governance and Administration of Public Service Pension Schemes.

## DELEGATION OF FUNCTIONS

Subject to the council's scheme of delegation to officers, responsibility for the proper operation of the Fund in accordance with all relevant regulations and best practice lies with the Pensions Committee. In addition, and in accordance with the Regulations, the Fund has established a local Pensions Board for the purposes of assisting the administering authority (Lambeth Council) in the governance and administration of the scheme; the Board operates independently of the Pensions Committee.

The Committee is advised by the Strategic Director of Finance and Investment and her officers as delegated, together with the Fund's investment consultants.

The Strategic Director of Finance and Investment is responsible for ensuring that the in-house team provides adequate support to both the Committee and the Board. In between Committee meetings the Fund's managers report to officers on investment performance and the implementation of the investment strategy.

The Fund's procedures are subject to audit and scrutiny by both the council's internal audit team and its external auditor.

This delegation of functions complies with the current guidance issued by the Secretary of State.

## PENSIONS COMMITTEE

### Terms of Reference

The full terms of reference for the Pensions Committee are set out in the council's Constitution; what follows is a summary of those terms. The Committee is responsible for ensuring that the Fund is properly operated in accordance with all relevant legislation and best practice as advised by the Pensions Regulator, the Local Government Pension Scheme (LGPS), Scheme Advisory Board (SAB), the Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Finance and Accountancy (CIPFA), including both financial and administration matters. This will include, but is not limited to:

1. benefits administration;
2. managing the discretions policies;
3. resolving internal dispute;
4. communications with members;
5. communication and engagement with employers;
6. monitoring risks;
7. record keeping;
8. publishing of scheme information as required;
9. approving the Fund's Pension Fund Annual Report and Financial Statements and to consider any reports produced by the Strategic Director of Finance and Investment in accordance with the duty to make arrangements for the proper administration of the financial affairs of the Fund;
10. participating in the London Collective Investment Vehicle (CIV) in accordance with the

requirements placed on administering authorities in relation to the pooling of LGPS assets;

11. carrying out the duties set out in the Regulations in relation to the actuarial valuations of the Fund and in relation to any other decisions about the amount employers need to pay; and
12. assessing the covenant of Fund employers and ensuring that employer contributions are set accordingly.

The Committee will determine the Fund's overall investment strategy in accordance with the Regulations, ensuring that the Fund is invested in suitable types of investments and is sufficiently diversified having regard to its investment objectives. These include:

1. determining the Investment Strategy Statement;
2. ensuring adequate monitoring and compliance with the overall investment strategy and the Investment Strategy Statement.
3. appointing investment managers and any external service providers and advisors felt to be necessary;
4. maintaining effective arrangements for reviewing on a regular basis investment manager performance against established benchmarks and being satisfied as to manager expertise and the quality of their internal systems; and
5. ensuring compliance to pooling requirements through the London CIV, reviewing CIV performance against established benchmarks on a regular basis, and being satisfied as to the CIV's expertise and the quality of their internal systems.

The Committee will work closely with the Board to ensure the scheme is administered efficiently and effectively and will share with the Board reports and documents to enable the Board to achieve and meet its remit. The Committee will receive updates from each Board meeting and as the Board deems necessary. In support of this working relationship any member of the Committee may attend Board meetings and Board members may also attend Committee meetings.

As part of good scheme governance, the Committee will work with, receive, and consider reports and requests for information from the Board. The Board is not a decision-making body and it will be for the Committee to ensure that the appropriate actions are undertaken as required.

The Committee will also ensure that the Fund works with the relevant admitted bodies as required and that a discretions policy is properly maintained and administered.

### **Frequency of Meetings**

The Committee meets at least quarterly, with additional meetings convened as and when required. The details of forthcoming meetings, as well as minutes and papers from previous meetings, are available on the council's website at the following link:

<https://modern.gov.lambeth.gov.uk/ieListMeetings.aspx?CommitteId=734>.

Committee meetings are held in the Town Hall, Brixton, or remotely by electronic, digital or virtual means via the internet or conference call and are open to members of the public.

### **Representatives**

The Committee draws its membership from "interested parties" as follows:

- Five elected councillor members (plus two substitutes);
- One Lambeth Council employee representative (who is a member of the Fund);
- One trade union representative; and
- One pensioner representative (who is a member of the Fund).

All members of the Committee have voting rights and there is no requirement for it to be politically balanced. Provision is made for all members to undergo regular and relevant training to meet the requirement for them to be familiar with the rules of the Fund and all relevant legislation.



## PENSIONS BOARD

### Terms of Reference

The full terms of reference for the Pensions Board are set out in the council's Constitution; what follows is a summary of those terms. The core function of the Board is to assist the administering authority in securing compliance with the Regulations and any other legislation relating to the governance and administration of the Fund, which it can achieve through several means including, but not limited to:

1. the regular review of compliance monitoring reports, including reports and decisions made under Regulations by the Committee;
2. the review of management, administrative and governance policies and procedures to ensure they remain compliant with Regulations;
3. the review of risk management policies and the Fund's ongoing approach to identifying and monitoring risk; and
4. requesting information from, and making recommendations to, the Committee with regards matters that impact the administration and governance of the Fund.

The Board is not a negotiating body and will recognise its shared interests and objectives with the Committee; it is not responsible for making operational or investment decisions concerning the Fund.

### Frequency of Meetings

The Board will meet at least twice per year but may choose to meet more often as required. The details of forthcoming meetings, as well as minutes and papers from previous meetings, are available on the council's website at the following link:

<https://modern.gov.lambeth.gov.uk/ieListMeetings.aspx?CommitteeId=733>.

Board meetings are held in the Town Hall, Brixton, or remotely by electronic, digital or virtual means via the internet or conference call and are open to members of the public.

### Representatives

The Board draws its membership from "interested parties" as follows:

1. Three elected councillor members serving as employer representatives;
2. One Lambeth Council employee representative (who is a member of the Fund);
3. One trade union representative; and
4. One pensioner representative (who is a member of the Fund).

All members of the Board have voting rights and no member serving on the Board can also serve on the Committee (and vice versa). Provision is made for all members to undergo regular and relevant training to meet the requirement for them to be conversant with, or have a working knowledge of, the scheme regulations and policies, as well as relevant pensions legislation and guidance, in order to effectively carry out their duties.

## Training Record

Members of the Pensions Committee and Pensions Board undertook a combined 314 hours of training and attendance at relevant events during 2021/22, across 24 separate sessions/events. The Fund's Training Policy sets out how the required knowledge and skills of those responsible for Fund management can be acquired, retained and developed, guided by the CIPFA LGPS Knowledge and Skills Framework. The policy includes an annual training plan which provides tailored and specific sessions for members relevant to the Fund's Business Plan. At every Committee/Board meeting members receive recommendations of relevant events they should consider attending, whilst training/event attendance levels are also reported at each meeting.

## STATEMENT OF COMPLIANCE TO GUIDANCE

Regulation 55(1)(c) of the Local Government Pension Scheme Regulations 2013 requires the administering authority to report on the extent to which those bodies with delegated authority to carry out the functions of the scheme comply with statutory guidance. Where compliance does not meet the required standard, there is a requirement to set out the reasons for non-compliance. The following paragraphs set out the Fund's compliance against nine key governance principles.

### 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.

	Not Compliant			Fully Compliant	
a					√
b				√	
c					√
d			√		

### Principle B – Representation

- a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:
  - employing authorities (including non-scheme employers, e.g. admitted bodies);
  - scheme members (including deferred and pensioner scheme members),
  - where appropriate, independent professional observers, and
  - 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.

	Not Compliant			Fully Compliant	
a					√
b					√



**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.

	Not Compliant			Fully Compliant		
a						√
b						√

**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.

	Not Compliant			Fully Compliant		
a						√

**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

	Not Compliant			Fully Compliant		
a						√
b						√
c						√

**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.

	Not Compliant			Fully Compliant		
a						√
b						√
c						√

**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.

	Not Compliant			Fully Compliant		
a						√

**Principle H – Scope**

- a. That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.

	Not Compliant			Fully Compliant		
a						√

### 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.

	Not Compliant			Fully Compliant	
a					√





**11.**

Statement of  
Accounts  
2021/22



# Statement of Accounts 2021/22

## FUND ACCOUNT AND NET ASSETS STATEMENT

FUND ACCOUNT	Notes	2021/22 £000	2020/21 £000
Dealing with members, employers and others directly involved in the fund:			
Contributions	7	(55,733)	(53,703)
Transfers in from other pension funds	8	(2,648)	(3,982)
Sub-Total		(58,381)	(57,685)
Benefits	9	59,491	59,251
Payments to and on account of leavers	10	6,441	9,959
Sub-Total		65,932	69,210
Net (additions)/withdrawals from dealing with members.		7,551	11,526
Management expenses	11	9,850	9,298
Net additions/withdrawals including fund management expenses		17,401	20,823
Returns on investments:			
Investment Income	12	(44,539)	(28,089)
Tax on Income	13a	0	0
Profit and loss on disposal of investments and changes in the market value of investments	14a	(26,912)	(353,247)
Net return on investments		(71,451)	(381,336)
Net decrease /(increase)in the net assets available for benefits during the year		(54,050)	(360,513)
Opening net assets of the scheme		(1,787,746)	(1,427,234)
<b>Closing net assets of the scheme</b>		<b>(1,841,796)</b>	<b>(1,787,746)</b>

<b>NET ASSETS STATEMENT</b>	<b>Notes</b>	<b>2021/22 £000</b>	<b>2020/21 £000</b>
Investment Assets	14b	1,738,133	1,769,263
Cash Deposits	14	0	0
<b>Total Investment Assets</b>		<b>1,738,133</b>	<b>1,769,263</b>
Current Assets	20	105,006	18,484
Current Liabilities	21	(1,342)	0
<b>Net assets of the fund available to fund benefits at the period end</b>		<b>1,841,796</b>	<b>1,787,746</b>

## NOTES TO THE ACCOUNTS

The accompanying notes form an integral part of the financial statements.

### 1. Description of the Fund

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

The following description of the Fund is a summary only. For further information, reference should be made to the Lambeth Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

#### General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation (referred to henceforth as "the Regulations"):

- The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Lambeth Council to provide pensions and other benefits for pensionable employees of the council and a range of other scheduled and admitted bodies within the borough.

The Fund is overseen by the Pensions Committee, a statutory committee of Lambeth Council with authority to discharge the council's functions in relation to the pension fund.

#### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join and remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Lambeth Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund via an admission agreement. Admitted bodies include voluntary and charitable bodies or private contractors undertaking an outsourced local authority function.

There are 28 employer organisations within the Fund including Lambeth Council itself, although only 27 have active members as set out in the following table.

Lambeth Pension Fund	31 March 2022	31 March 2021
<b>Number of employers with active members:</b>	27	24
<b>Number of employees in scheme:</b>		
Lambeth council	4,587	4,551
Other employers	366	462

Lambeth Pension Fund	31 March 2022	31 March 2021
<b>Total</b>	<b>4,953</b>	<b>5,013</b>
<b>Number of deferred pensioners:</b>		
Lambeth council	8,385	8,160
Other employers	232	300
<b>Total</b>	<b>8,617</b>	<b>8,460</b>
<b>Number of pensioners:</b>		
Lambeth council	7,741	7,374
Other employers	65	81
<b>Total</b>	<b>7,806</b>	<b>7,455</b>
<b>Total number of members in pension scheme</b>	<b>21,376</b>	<b>20,928</b>

#### Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Regulations and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employee contributions are matched by employers' contributions that are set based on triennial actuarial funding valuations; current contributions are based on the 2019 valuation and range from 0% to 51.4% of pensionable pay.

#### Benefits

For each year of LGPS membership built up prior to 1 April 2014, Fund members receive a pension based on the appropriate accrual rate of their final pay summarised as follows:



	<b>Service pre 1 April 2008</b>	<b>Service post 1 April 2008</b>
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3x 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.	No automatic lump sums. 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.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay each year at an accrual rate of 1/49th. Accrued pension benefits are updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Lambeth Pension Fund Scheme handbook which is available on the Lambeth Pension Fund website at the following link:

<https://www.lgpslambeth.org/resources/a-brief-guide-to-the-lgps-for-employees/>

## 2. Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2021/22 financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year.

The following accounting policy changes are not yet reflected in the 2021-22 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17) will be implemented on 1 April 2024;
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard The Code requires the disclosure of any accounting standards issued but not yet adopted; there are no changes accounting requirements for 2021/22.

The Pension Fund Accounts have been prepared on a going concern basis.

### 3. Summary of Significant Accounting Policies

#### Fund Account – revenue recognition

##### *a) Contribution income*

Normal contributions, both from members and employers, are accounted for on an accruals basis in the payroll period to which they relate.

Employer contributions are based on the percentage rate recommended by the scheme actuary. Employee contributions are based on the Regulations and range from 5.5% to 12.5% of pensionable pay.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary, or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset.

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

Individual transfers in/out are accounted for on a cash basis when received/paid, which is normally when the member liability is accepted or discharged (see notes 8 and 10).

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in (see note 8).

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 normal accruals accounting. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

###### *ii) Dividend income*

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

###### *iii) Distributions from pooled funds*

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.

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

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

#### Fund Account – expense items

##### *d) Benefits payable*

Pensions and lump sum benefits payable include all amounts known to be due as 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 registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such 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) Management expenses*

The Code does not require any breakdown of costs relating to administration, oversight and governance, and managing investments. However, in the interests of greater transparency, the Fund discloses its total pension fund management expenses in note 11 in accordance with the CIPFA guidance on Accounting for Local Government Pension Scheme Management Expenses (2016).

###### *Administrative expenses*

Administration expenses include those related to activities performed to administer benefits to members, interactions with scheme employers, and staffing and IT costs. All administration expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged directly to the Fund as well as a proportion of staff costs relating to the investment management team. Associated management, accommodation and other

overheads are apportioned to this activity and charged as expenses to the Fund.

#### *Oversight and governance costs*

Oversight and governance expenses include costs relating to the selection, appointment and monitoring of external fund managers, investment advisory services, any costs of compliance to salutatory reporting, legal costs, and audit fees. All oversight and governance expenses are accounted for on an accruals basis and charged directly to the Fund.

#### *Investment management expenses*

All investment management expenses are accounted for on an accruals basis. Fees of the external fund 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 those investments change.

Investment management expenses deducted at source (which would have been netted off investment income or asset sales) are accounted for by grossing up investment sales; this has the effect of increasing the change in value of investments reported in the Fund Account and the investment reconciliation table in Note 14a, though the closing value of investments as reported in the Net Assets Statement is unaffected. This treatment is in line with the CIPFA Guidance on Accounting for Local Government Pension Scheme Management Expenses 2016.

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the Fund Account. In 2021/22 £0.0m fees were included in the accounts based on such estimates (2020/21: £0.0m).

### Net Assets Statement

#### *g) Financial assets*

Investments are shown at fair value, as at the reporting date. Debtors and cash are accounted for at amortised cost. 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 the asset are recognised in the Fund Account.

The value 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 price on the final day of the accounting period.

##### *ii) Fixed interest securities*

Fixed interest securities are recorded at net market value based on their current yields.

##### *iii) 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 or, where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

Unquoted securities typically include private equity. The valuation of these pools or directly held securities 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.

Investments in private equity funds and unquoted listed partnerships are valued based on comparable valuations of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines.

##### *iv) 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 also includes income that is reinvested in the fund, net of applicable withholding tax.

##### *h) Foreign currency transactions*

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

##### *j) Cash and cash equivalents*

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

#### 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.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 19).

#### m) Additional voluntary contributions

Lambeth Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential, Equitable Life, and Clerical Medical as its AVC providers.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVC contributors receive an

annual statement detailing the value of their contributions and any movements in the year.

AVCs are not included in the statement of accounts in accordance with the Regulations but are disclosed separately in the notes to the accounts (note 22).

#### n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in notes 24 and 25.

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

There were no critical judgements in 2021-22 other than estimation uncertainty that would have impacted on the financial statements.



## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the value of assets and liabilities reported at the balance sheet date as well as the amounts reported for revenue and expenses

incurred during the year. Estimates and assumptions consider historical experience, current trends, and other relevant factors; however, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items

in the financial statements as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity (Note 14)	Private equity investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation. The valuation shown as at 31 March 2022 is £74.9m.	The total (called) private equity investment in the financial statements is £74.9m. There is a risk that this investment may be under- or overstated in the accounts by up to £19m as a result of market volatility i.e., interest rate, inflation rate. Private Equity is illiquid for holding until its maturity of 12 years.
Pooled property funds (Note 15)	The pension fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments (as detailed in note 15).	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments by up to 14.1% i.e. an increase or decrease of £24.0m, on carrying values of £170m.

## 6. Events after the Reporting Date

The actuary issued the 2022 triennial valuation results on 30 March 2023, the employer contribution rate for the next three years has been set at 19.3%. The funding level is 96% and has a deficit of £79m.

In addition, as a result of the updated triennial valuation, the Actuarial Present Value of Promised Retirement

Benefits (Note 19) has also been updated to reflect the revised position.

## 7. Contributions Receivable

Category	2021/22 £000	2020/21 £000
Employees	11,092	10,227
Employers:		
Normal contributions	32,142	30,976
Deficit recovery contributions	12,500	12,500
Augmentation contributions	0	0
Total employer contributions	44,642	43,476
<b>Total contributions receivable</b>	<b>55,733</b>	<b>53,703</b>

Type of employer	2021/22 £000	2020/21 £000
Administering authority	51,777	49,849
Scheduled bodies	3,535	3,341
Admitted bodies	34	341
Community admission bodies	352	106
Transferee admission bodies	34	66
<b>Total</b>	<b>55,733</b>	<b>53,703</b>

## 8. Transfers In from Other Pension Funds

Category	2021/22 £000	2020/21 £000
Individual transfer	2,648	3,982
<b>Total</b>	<b>2,648</b>	<b>3,982</b>

## 9. Benefits Payable

Category	2021/22 £000	2020/21 £000
Pensions	50,604	50,107
Commutation & lump sum retirement benefits	6,926	8,078
Lump sum death benefits	1,962	1,065
<b>Total</b>	<b>59,491</b>	<b>59,251</b>

Authority	2021/22 £000	2020/21 £000
Administering authority	59,375	59,199
Scheduled bodies	117	6
Admitted bodies	0	46
Community admission bodies	0	0
<b>Total</b>	<b>59,491</b>	<b>59,251</b>

## 10. Payments to and on Account of Leavers

	2021/22 £000	2020/21 £000
Refunds to members leaving service	151	283
Individual transfers	6,290	9,676
<b>Total</b>	<b>6,441</b>	<b>9,959</b>

## 11. Management Expenses

	2021/22 £000	2020/21 £000
Administration costs	1,724	1,122
Investment management expenses	7,689	7,699
Oversight and governance costs	436	477
<b>Total</b>	<b>9,850</b>	<b>9,298</b>

In 2021/22 the Fund paid £1.7m in staffing costs. This disclosure is as per CIPFA guidance, and further details concerning key management personnel are included within the Annual Report.

## 11a. Investment Management Expenses

2021/22	Total £000	Management Fees £000	Transaction Costs £000
Bonds	181	181	0
Equities	0	0	0
Pooled investments	3,660	3,660	0
Pooled property investments	1,222	1,222	0
Private equity	422	422	0
Multi Asset Credit	1,776	1,776	0
Private Debt	396	396	0
<b>Subtotal</b>	<b>7,656</b>	<b>7,656</b>	<b>0</b>
Custody Costs	33		
<b>Total</b>	<b>7,689</b>		

2020/21	Total £000	Management Fees £000	Transaction Costs £000
Bonds	200	200	0
Equities	0	0	0
Pooled investments	4,202	4,202	0
Pooled property investments	1,239	1,239	0
Private equity	544	544	0
Multi Asset Credit	1,257	1,257	0
Private Debt	226	226	0
<b>Subtotal</b>	<b>7,668</b>	<b>7,668</b>	<b>0</b>
Custody Costs	31		
<b>Total</b>	<b>7,699</b>		

This analysis of the costs of managing the Lambeth Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The total management expenses incurred (deducted in the daily pricing of the individual portfolios) for the year were £7.7m (2020-21 £7.3m) of which only £0.039m was invoiced and the remainder deducted at source by fund managers.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. This is reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (note 14a).

## 12. Investment Income

Category	2021/22 £000	2020/21 £000
Fixed interest securities		3
Private equity income	24,599	9,536
Pooled property investments	3,593	4,271
Pooled investments - unit trust and other managed funds	5,078	4,589
MAC Fund	7,925	7,738
Private Debt	3,219	1,940
Interest on cash deposits	7	0
Other	119	11
<b>Total</b>	<b>44,539</b>	<b>28,089</b>



### 13a. Taxes on Income

	2021/22 £000	2020/21 £000
Tax – equities	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

### 13b. External Audit Costs

	2021/22 £000	2020/21 £000
Payable in respect of external audit	19	19
<b>Total</b>	<b>19</b>	<b>19</b>

### 14. Investment Assets

	2021/22 £000	2020/21 £000
<b>Bonds</b>		
Fixed interest securities	281,162	222,409
<b>Equities</b>		
Pooled investments	772,946	916,792
<b>Other investments</b>		
Pooled property investments	170,178	159,115
Private equity	75,238	72,508
Multi Asset Credit	358,666	352,080
Private Debt	79,757	46,175
<b>Subtotal</b>	<b>683,838</b>	<b>629,878</b>
London CIV	150	150
Cash instruments	36	34
<b>Subtotal</b>	<b>186</b>	<b>184</b>
<b>Total investment assets</b>	<b>1,738,133</b>	<b>1,769,263</b>

#### 14a. Reconciliation of Movements in Investments

	Market value 1 April 2021 £000	Purchases during the year £000	Transfers – IN £000	Sales during the year £000	Transfers - OUT £000	Change in cash £000	Change in market value £000	Market value 31 March 2022 £000
Fixed interest securities	222,409	70,135	0	(25,314)	0	0	13,933	281,162
Pooled investments	916,792	5,073	0	(146,660)	0	0	(2,260)	772,946
Pooled property investments	159,115	0	0	(1,222)	0	0	12,285	170,178
Private equity	72,508	3,285	0	(422)	0	0	(132)	75,238
Multi Asset Credit	352,080	7,925	0	(1,776)	0	0	436	358,666
Private Debt	46,175	33,589	0	(2,135)	0	0	2,127	79,757
London CIV	150	0	0	0	0	0	0	150
Cash Instruments	34	0	53	0	0	(50)	0	36
<b>Subtotal</b>	<b>1,769,263</b>	<b>120,007</b>	<b>53</b>	<b>(177,528)</b>	<b>0</b>	<b>(50)</b>	<b>26,389</b>	<b>1,738,133</b>
<b>Total</b>	<b>1,769,263</b>	<b>120,007</b>	<b>53</b>	<b>(177,528)</b>	<b>0</b>	<b>(50)</b>	<b>26,389</b>	<b>1,738,133</b>

	Market value 1 April 2020 £000	Purchases during the year £000	Transfers – IN £000	Sales during the year £000	Transfers - OUT £000	Change in cash £000	Change in market value £000	Market value 31 March 2021 £000
Fixed interest securities	220,331	13,126	0	(13,125)	0	0	2,164	222,409
Pooled investments	735,168	4,454	0	(139,577)	0	0	316,748	916,792
Pooled property investments	172,433	0	0	(1,475)	0	0	(11,843)	159,115
Private equity	67,464	492	0	(544)	0	0	5,095	72,508
Multi Asset Credit	183,060	127,538	0	(1,257)	0	0	42,738	352,080
Private Debt	24,446	24,491	0	(226)	0	0	(2,536)	46,175
London CIV	150	0	0	0	0	0	0	150
Cash Instruments	33	0	56	0	0	(55)	0	34
<b>Subtotal</b>	<b>1,403,086</b>	<b>170,101</b>	<b>56</b>	<b>(156,293)</b>	<b>0</b>	<b>(55)</b>	<b>352,366</b>	<b>1,769,263</b>
<b>Total</b>	<b>1,403,086</b>	<b>170,101</b>	<b>56</b>	<b>(156,293)</b>	<b>0</b>	<b>(55)</b>	<b>352,366</b>	<b>1,769,263</b>

## 14b. Analysis of Investments

	31 March 2022 £000	31 March 2021 £000
Bonds		
Corporate quoted	281,162	222,409
Pooled funds - additional analysis		
Unit trusts quoted	772,813	916,405
Hedge fund of funds unquoted	133	387
Pooled property investments UK unquoted	45,867	42,719
Pooled property investments Overseas unquoted	124,311	116,396
Private equity unquoted	75,238	72,508
Multi Asset Credit Overseas quoted	358,666	352,080
Private Debt Overseas quoted	79,757	46,175
London CIV	150	150
Cash Instrument	36	34
<b>Total investment assets</b>	<b>1,738,133</b>	<b>1,769,263</b>

#### 14c. Investments Analysed by Fund Manager

	Market Value 31 March 2022 £000	% of Fund	Market Value 31 March 2021 £000	% of Fund
Adam Street	75,238	4.3	72,508	4.1
Invesco	170,134	9.8	159,074	9.0
Insight	281,196	12.6	222,441	12.6
London CIV	150	0.0	150	0.0
London CIV - BG Global Equity	285,790	16.4	406,304	23.0
London CIV - JP Morgan	171,868	9.9	191,447	10.8
London CIV - MAC	234,856	13.5	229,293	13.0
Insight MMF	5,000	0.3	5,000	0.3
M&G	123,810	7.1	122,787	6.9
London CIV - RBC	310,155	17.8	313,654	17.7
PAAMCO	133	0.0	387	0.0
RREEF	46	0.0	43	0.0
Churchill Asset Management	46,158	2.7	23,807	1.3
Permira	33,599	1.9	22,368	1.3
<b>Total</b>	<b>1,738,133</b>	<b>100</b>	<b>1,769,263</b>	<b>100</b>

The following investments represent over 5% of the net assets of the Fund:

	Market Value 31 March 2022 £000	% of Fund	Market Value 31 March 2021 £000	% of Fund
Invesco	170,134	9.8	159,074	9.0
Insight	281,196	12.6	222,441	12.6
London CIV - BG Global Equity	285,790	16.4	406,304	23.0
London CIV - JP Morgan	171,868	9.9	191,447	10.8
London CIV - MAC	234,856	13.5	229,293	13.0
London CIV - RBC	310,155	17.8	313,654	17.7
M&G	123,810	7.1	122,787	6.9



## 15. Fair Value – Basis of Valuation

The basis of valuation for each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV-based pricing set on a forward pricing basis	Material events occurring between the date of the statements provided and the Fund's own reporting date, changes to expected cash flows, or by variances between audited and unaudited accounts.
Pooled investments – hedge funds	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published	NAV-based pricing set on a forward pricing basis	Material events occurring between the date of the statements provided and the Fund's own reporting date, changes to expected cash flows, or by variances between audited and unaudited accounts.
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Material events occurring between the date of the statements provided and the Fund's own reporting date, changes to expected cash flows, or by variances between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the potential impact on the closing value of investments held as at 31 March 2022.

	Valuation range (+/-)	Value at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled investments – Hedge funds	6.8%	133	142	124
Pooled investments – Property Funds	14.1%	170,178	194,220	146,136
Private equity	25.0%	75,238	94,028	56,448
<b>Total</b>		<b>245,549</b>	<b>288,390</b>	<b>202,708</b>

## 15a. Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities 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 quoted unit trusts.

### Level 2

Assets and liabilities 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 based on observable data.

### Level 3

Assets and liabilities 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.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Property pooled funds continue to be included at level 3 as a result of the market valuation uncertainty that has been added to the fund valuations.

Values at 31 March 2022	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Bonds	281,162	0	0	281,162
Pooled investments	1,211,386	0	133	1,211,519
Pooled property investments	0	0	170,178	170,178
Private equity	0	0	75,238	75,238
Cash deposits	36	0	0	36
<b>Total</b>	<b>1,492,584</b>	<b>0</b>	<b>245,549</b>	<b>1,738,133</b>

Values at 31 March 2021	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Bonds	222,409	0	0	222,409
Pooled investments	1,314,810	0	387	1,315,197
Pooled property investments	0	0	159,115	159,115
Private equity	0	0	72,508	72,508
Cash deposits	34	0	0	34
<b>Total</b>	<b>1,537,253</b>	<b>0</b>	<b>232,010</b>	<b>1,769,263</b>

### 15b. Reconciliation of Fair Value Measurements within Level 3

	Market value 1 Apr 2021 £000	Transfer into level 3 £000	Transfer out of level 3 £000	Purchases £000	Sales £000	Unrealised gain (loss) £000	Realised gain (loss) £000	Market Value 31 March 2022 £000
Hedge Fund of Funds	387	0	0	0	0	(254)	0	133
Private equity	72,508	0	0	3,285	(422)	(132)	0	75,238
Pooled property investments	159,115	0	0	0	(1,222)	12,285	0	170,178
	<b>232,010</b>	<b>0</b>	<b>0</b>	<b>3,285</b>	<b>(1,644)</b>	<b>11,899</b>	<b>0</b>	<b>245,549</b>

	Market value 1 Apr 2020 £000	Transfer into level 3 £000	Transfer out of level 3 £000	Purchases £000	Sales £000	Unrealised gain (loss) £000	Realised gain (loss) £000	Market Value 31 March 2021 £000
Hedge Fund of Funds	655	0	0	0	0	(268)	0	387
Private equity	67,464	0	0	492	(544)	5,095	0	72,508
Pooled property investments	172,435	0	0	0	(1,475)	(13,318)	0	159,117
	<b>240,554</b>	<b>0</b>	<b>0</b>	<b>492</b>	<b>(2,019)</b>	<b>(8,491)</b>	<b>0</b>	<b>232,012</b>

## 16a. Classification of Financial Instruments

	2021/22			2020/21		
	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair value through profit & loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial Assets:</b>						
Fixed interest securities	281,162	0	0	222,409	0	0
Pooled investments	772,946	0	0	916,792	0	0
Pooled property investments	170,178	0	0	159,115	0	0
Private equity	75,238	0	0	72,508	0	0
Multi Asset Credit	358,666	0	0	352,080	0	0
Private Debt	79,757	0	0	46,175	0	0
London CIV	150	0	0	150	0	0
Cash instruments	36	0	0	34	0	0
Debtors	0	612	0	0	600	0
Cash and cash equivalents	0	104,394	0	0	17,714	0
<b>Financial Liabilities:</b>						
Creditors	0	0	(1,342)	0	0	(170)
<b>Total</b>	<b>1,738,133</b>	<b>105,006</b>	<b>(1,342)</b>	<b>1,769,263</b>	<b>18,314</b>	<b>(170)</b>



## 16b. Net Gains and Losses on Financial Instruments

	31 March 2022 £000	31 March 2021 £000
<b>Financial Assets:</b>		
Fair Value through profit and loss	26,389	352,367)
Measured at amortised cost	0	0
<b>Financial Liabilities:</b>		
Measured at amortised cost	523	880
<b>Total</b>	<b>26,912</b>	<b>353,247</b>

## 17. 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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest risk) to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### a) 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 risk management 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 the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

1. The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels.
2. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

#### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, and in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review; this analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movement 21-22 %	Potential market movement 20-21 %
Bonds - LDI	14.3%	14.7%
Emerging Market Equities	26.2%	26.5%
Sustainable Equities	17.0%	17.8%
Private Debt	10.6%	10.6%
Global Equities	17.0%	17.8%
Pooled Property Investments	14.1%	14.1%
Private Equity	25.0%	24.0%
Multi Asset Credit	10.7%	9.4%
Hedge Funds	6.8%	6.8%
Money Market Fund	0.0%	0.0%
Cash - GBP	0.0%	0.0%

Had the market price of the Fund's investments increased/decreased in line with the above percentage movements, the change in the net assets available to pay benefits would have been as follows (prior year comparator is also shown):

### Change in the net assets

Asset type	Value at 31 March 2022 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Bonds - LDI	281,196	40,331	321,527	240,865
Emerging Market Equities	171,868	44,981	216,849	126,887
Private Debt	79,757	8,487	88,244	71,270
Global Equities	595,945	101,421	697,366	494,525
Pooled Property Investments	170,180	24,043	194,223	146,137
Private Equity	75,238	18,790	94,028	56,448
Multi Asset Credit	358,666	38,213	396,879	320,453
Hedge Funds	133	9	142	124
Money Market Fund	5,000	0	5,000	5,000
London CIV	150	0	150	150
<b>Total</b>	<b>1,738,133</b>	<b>276,274</b>	<b>2,014,407</b>	<b>1,461,859</b>

Asset type	Value at 31 March 2021 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Bonds - LDI	222,441	32,699	255,139	189,742
Emerging Market Equities	191,447	50,734	242,181	140,714
Private Debt	46,175	4,895	848,110	41,281
Global Equities	719,958	128,152	181,552	591,805
Pooled Property Investments	159,117	22,435	89,910	136,681
Private Equity	72,508	17,402	92,089	55,106
Multi Asset Credit	352,080	33,096	385,175	318,984
Hedge Funds	387	26	413	361
Money Market Fund	5,000	0	5,000	5,000
London CIV	150	0	150	150
<b>Total</b>	<b>1,769,263</b>	<b>289,439</b>	<b>2,058,701</b>	<b>1,479,824</b>

### 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 risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out in the table opposite. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### Interest rate risk – sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next.

The analysis opposite assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 basis point change in interest rates.

Assets exposed to interest rate risk	Value at 31 March 2022 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	104,394	0	104,394	104,394
Fixed interest securities	281,162	2,812	283,974	278,351
<b>Total</b>	<b>385,556</b>	<b>2,812</b>	<b>388,368</b>	<b>382,745</b>

Assets exposed to interest rate risk	Value at 31 March 2021 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	17,714	0	17,714	17,714
Fixed interest securities	222,409	2,224	224,633	220,185
<b>Total</b>	<b>240,123</b>	<b>2,224</b>	<b>242,347</b>	<b>237,899</b>

Income exposed to interest rate risk	Amount Receivable 2021/22 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	7	0	7	7
Fixed interest securities	0	0	0	0
<b>Total</b>	<b>7</b>	<b>0</b>	<b>7</b>	<b>7</b>
Income exposed to interest rate risk	Amount Receivable 2020/21 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	0	0	0	0
Fixed interest securities	3	0	3	3
<b>Total</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>3</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will decrease their fair value, and vice versa. Changes in interest rates do not influence the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### 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 the functional currency of the fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would increase / decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Value at 31 March 2022 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	75,238	7,524	82,762	67,714
Overseas unit trusts	124,311	12,431	136,742	111,880
<b>Total</b>	<b>199,549</b>	<b>19,955</b>	<b>219,504</b>	<b>179,594</b>

Assets exposed to currency risk	Value at 31 March 2021 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas unquoted securities	72,508	7,251	79,758	65,257
Overseas unit trusts	116,396	11,640	128,035	104,756
<b>Total</b>	<b>188,903</b>	<b>18,890</b>	<b>207,794</b>	<b>170,013</b>



## b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2022 was £104.4m (31 March 2021: £17.7m). This was held with the following institutions.

	Rating	31 March 2022 £000	31 March 2021 £000
<b>Money Market Funds:</b>			
Northern Trust - Liquidity Fund	AAA	19	24
<b>Bank Deposits and Current Account:</b>			
Royal Bank of Scotland	A+	104,394	17,714
<b>Total</b>		<b>104,412</b>	<b>17,738</b>

## Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure it maintains adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet pensioner payroll

costs, and cash to meet investment commitments; the Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert into cash. As at 31 March 2022 the value of liquid assets was £1,686.5m, which represented 91.57% of total Fund assets (31 March 2021: £1,714.6m, which represented 95.9% of total Fund assets).

The Fund's Investment Management team prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2022 are due within one year.

## Refinancing risk

The key risk is that the Fund will be obligated to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

## 18. Funding Arrangements

In line with the Regulations the Fund's actuary undertakes a funding valuation every three years for setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2022.

The funding policy is set out in the Fund's Funding Strategy Statement, dated January 2023. The key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants.
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term);
- where appropriate, ensure stable employer contribution rates.
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 17 years and to provide stability in employer contribution rates by spreading any increases in rates over a reasonable period. Solvency is achieved when the funds held, future expected investment returns, and future contributions are sufficient to meet expected future pension benefits payable. When an

employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2022 actuarial valuation the Fund's assets, which at 31 March 2022 were valued at £1,842m, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date (82% as at 31 March 2019). The resulting deficit at the 2022 valuation was £79m (£307m as at 31 March 2019).

Changes to contribution rates have been phased in over the three-year period from April 2023 to 31 March 2026 for all scheme employers. Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable, as well as the methods and assumptions used, can be found in the 2022 actuarial valuation report and the Funding Strategy Statement on the Fund's website.

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

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

### Longevity assumptions

The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial

adjustment of 0.25% and a long-term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	31 March 2022	31 March 2019
<b>Retiring today</b>		
Males	21.5	21.5
Females	24.3	23.9
<b>Retiring in 20 years</b>		
Males	23.0	23.1
Females	25.9	25.7

## 19. Actuarial Present Value of Promised Retirement

### Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers, and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

To assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see note 18). The actuary has also valued ill health and death benefits in line with the IAS 19.

Calculated on an IAS 19 basis, the actuarial present value of promised retirement benefits at 31 March 2022 was £ 2,336m (31 March 2021: £2,504m). The fair value of the scheme assets was estimated to be £1,800m (31 March 2021: £1,747m), and the net liability was therefore implied to be £536m (31 March 2021: £758m).

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2022 triennial funding valuation (see note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used	2021/22 %	2020/21 %
Pension increase rate (CPI)	3.20	2.85
Salary increase rate	3.70	3.35
Discount rate	2.70	2.00

## 20. Current Assets

	31 March 2022 £000	31 March 2021 £000
Sundry debtors	612	770
Cash balances	104,394	17,714
<b>Total</b>	<b>105,006</b>	<b>18,484</b>

## 21. Current Liabilities

	31 March 2022 £000	31 March 2021 £000
Sundry creditors	1,342	0
<b>Total</b>	<b>1,342</b>	<b>0</b>

## 22. Additional Voluntary Contributions

	31 March 2022 £000	31 March 2021 £000
Prudential	3,246	2,304
Utmost Life & Pensions	539	467
Clerical Medical	206	168
<b>Total</b>	<b>3,981</b>	<b>2,939</b>

## 23. Related Party Transactions

Lambeth council administers the Lambeth Pension Fund. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £1.72m (2020/21 £1.12m) in relation to the administration of the fund and these costs were reimbursed by the Fund. The Council is also the single largest employer of members of the pension fund and contributed £41.2m to the fund in 2021/22 (2020/21: £40.0m). All monies owing to and due from the fund were paid in year.

### Governance

There are no elected Members of the Pensions Committee in receipt of pension benefits from the Lambeth Pension Fund; the pensioner representative was in receipt of pension benefits from the Lambeth Pension Fund during the year, although this position was vacant as at 31 March 2022. In addition, Pensions Committee staff representative S SivaAnanthan is an active member of the pension fund.

Members of the Pensions Committee are required to declare interests at each meeting.

## 24. Contingent Liabilities and Contractual

### Commitments

The total investment commitments as at 31 March 2022 are £354.29m and the outstanding undrawn commitments are £139.41m (31 March 2021: total commitment £212.2m and outstanding was £36.9m).

These commitments relate to outstanding call payments due on the Private Equity & Private Debt mandates of the portfolio. The amounts 'called' by these fund managers are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

**Note 25: Contingent Assets**

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





# 12.

## Funding Strategy Statement



# Funding Strategy Statement

The Funding Strategy Statement (FSS) of the London Borough of Lambeth Pension Fund is a statutory document and has been prepared by the administering authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment advisor.

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

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

The FSS is a summary of the Fund's approach to funding its liabilities, and focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their own liabilities. It sets out how the administering authority has balanced the conflicting aims of:

- Affordability of employer contributions;
- Transparency of processes;
- Stability of employers' contributions; and
- Prudence in the funding basis.

Following the 2019 triennial valuation the FSS was reviewed and updated; the most recent version was prepared as at March 2020.

The full version of the FSS is appended to this report as Appendix 1, and is also available on the Fund's website at the following link:

<https://www.lgpslambeth.org/media/nfcfbw2p/funding-strategy-statement.pdf>





**13.**

# Investment Strategy Statement

# Investment Strategy Statement

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State.

The ISS is a document that replaces, and largely replicates, the Statement of Investment Principles. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the Fund is determined and implemented. The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be assessed and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Lambeth published its latest ISS in February 2020; the document will be regularly reviewed and updated at least every three years.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation

The full version of the ISS is appended to this report as Appendix 2, and is also available on the Fund's website at the following link:

<https://www.lgpslambeth.org/media/wo1ez0dj/investment-strategy-statement.pdf>

London Borough of Lambeth

**LAMBETH**

14.

# Communications Policy Statement

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# Communications Policy Statement

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires the council, as the administering authority, to prepare, maintain, and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members and scheme employers.

It must also set out the authority's policy on:

- a) *The provision of information and publicity about the scheme to members, representatives of members and scheme employers;*
- b) *The format, frequency, and method of distributing such information or publicity; and*
- c) *The promotion of the scheme to prospective members and their employers.*

The Fund's Communications Policy Statement sets out the processes by which these objectives are achieved. The most accurate and up-to-date information is usually communicated in one of two ways;

The Fund's dedicated website; this contains all relevant information on joining the scheme, who runs the scheme, and the latest policies and procedures that govern it. The website can be found at the following link: <https://www.lgplslambeth.org>.

Annual Benefit Statements; these are sent out to all active and deferred members and provide details of accrued pension benefits and prospective benefits at retirement. The Fund will continue to improve and update the statements to ensure the information provided is accurate, clear and understandable.

The full version of the statement is appended to this report as Appendix 3, and is also available on the Fund's website at the following link:

<https://www.lgplslambeth.org/media/dhagmnv4/communications-policy-statement-september-2020.pdf>

## FUND CONTACT DETAILS:

### Pension Administration

Lambeth Pension Services  
2nd Floor, Lambeth Town Hall  
2 Brixton Hill  
Brixton  
London SW2 1RW

**Telephone:** 0207 926 3333

**Email:** [pensions@lambeth.gov.uk](mailto:pensions@lambeth.gov.uk)

### Investment Management

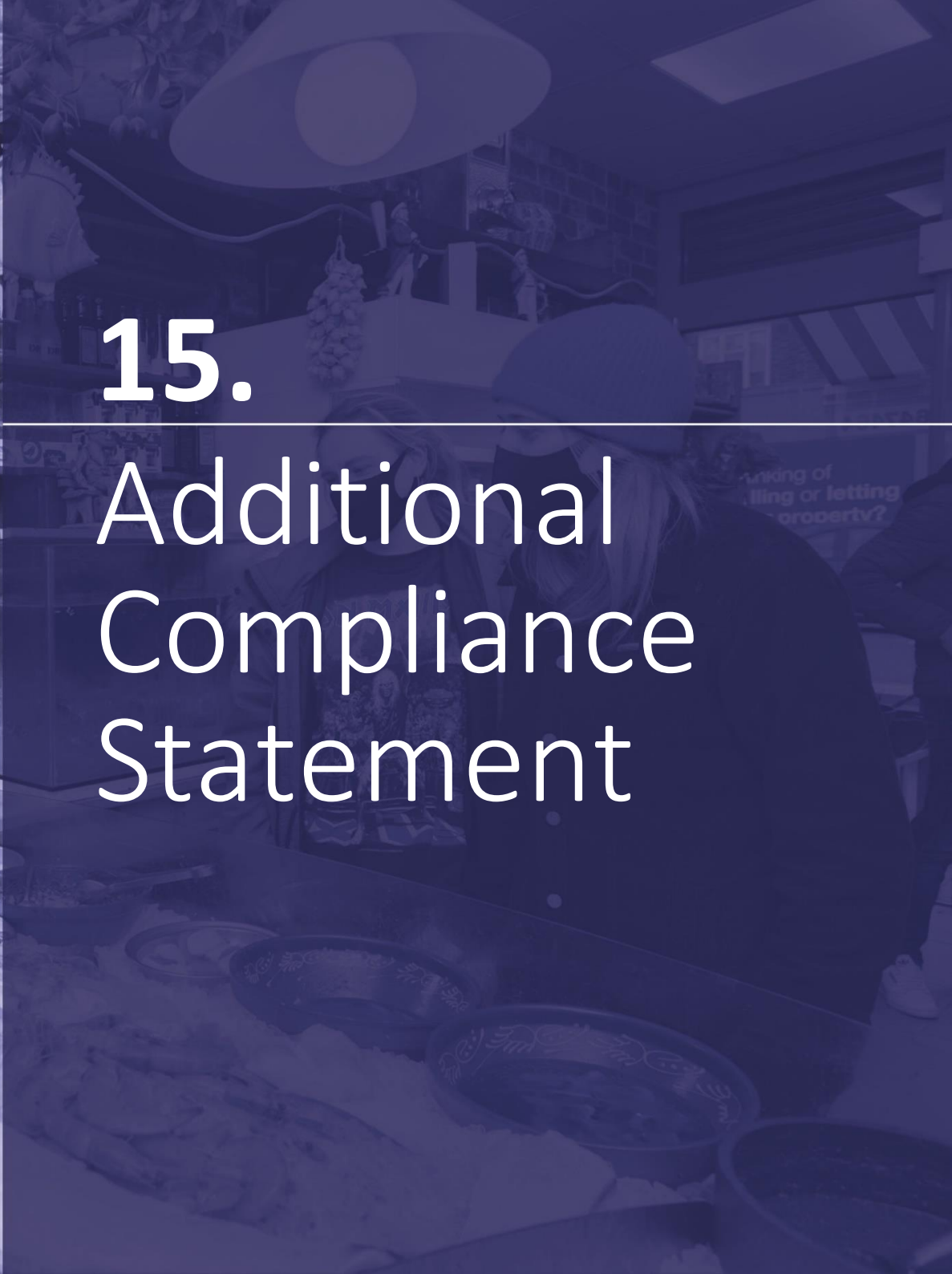
Treasury and Pensions  
2nd Floor, Lambeth Town Hall  
2 Brixton Hill  
Brixton  
London SW2 1RW

**Telephone:** 0207 926 5039

**Email:** [pensionfund@lambeth.gov.uk](mailto:pensionfund@lambeth.gov.uk)



# 15. Additional Compliance Statement



# Additional Compliance Statement

The purpose of this Compliance Statement is to disclose additional information required by legislation, but which is not considered to be of such significance to members.

## TAXATION

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

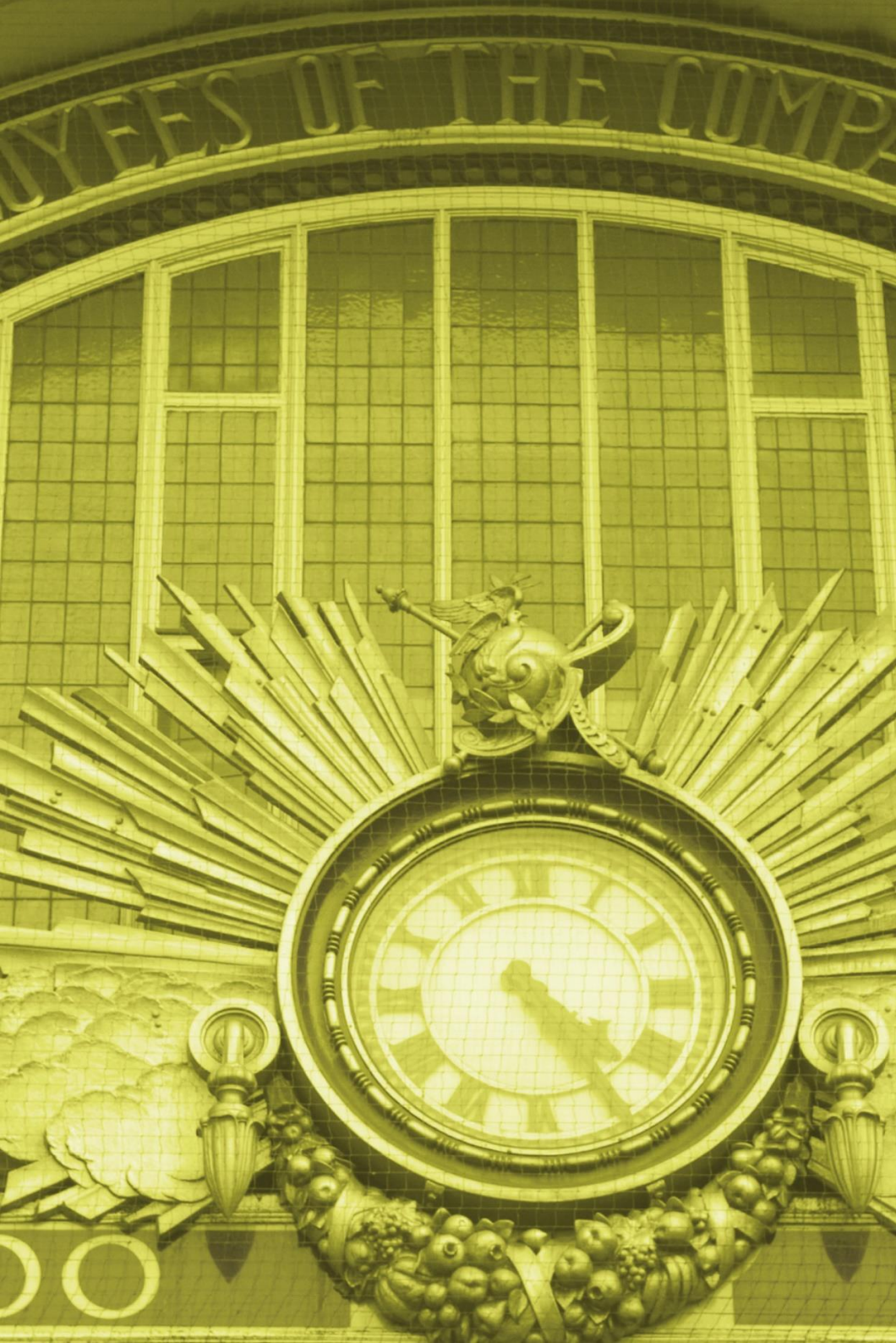
## TRANSFER VALUES

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

## PENSION INCREASES

Pensions are increased in accordance with the Pension Increase (Review) Order 2021 Statutory Instrument 2021 No 275.





**16.**

# Statement of Responsibilities

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STATION

# Statement of Responsibilities

## LAMBETH 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 responsibility for the administration of those affairs (usually that officer is the Section 151 officer, or the Chief Financial Officer);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

## THE CHIEF FINANCIAL OFFICER'S RESPONSIBILITIES

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Government Accounting, as updated annually.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting in the UK 2021/22;
- Maintained proper accounting records which are up-to-date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## DECLARATION

I certify that these accounts are a true and fair reflection of the financial position of the London Borough of Lambeth Pension Fund as at 31 March 2022.



**Duncan Whitfield**  
Interim Corporate Director of Finance and Governance  
Section 151 Officer  
London Borough of Lambeth  
Date: 1st December 2023





**17.**

# Independent Auditor's Statement

# Independent Auditor's Statement

Independent auditor's statement to the members of London Borough of Lambeth on the pension fund financial statements included within the London Borough of Lambeth Pension Fund annual report

## Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2022 included within the London Borough of Lambeth Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

## Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Lambeth for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

## Respective responsibilities of the Interim Strategic Director of Finance & Investment and the auditor

As explained more fully in the Statement of the Interim Strategic Director of Finance & Investment Responsibilities, the Interim Strategic Director of Finance & Investment is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Lambeth as a body, whether the Pension Fund financial statements within the Pension

Fund annual report are consistent with the financial statements of London Borough of Lambeth.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Lambeth describes the basis of our opinions on the financial statements.

## Use of this auditor's statement

This report is made solely to the members of London Borough of Lambeth, as a body and as administering authority for the London Borough of Lambeth Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of London Borough of Lambeth those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Lambeth and London Borough of Lambeth's members as a body, for our audit work, for this statement, or for the opinions we have formed.

## Suresh Patel

For and on behalf of Mazars LLP

30 Old Bailey, London, EC4M 7AU

Date: 4 December 2023





# 18.

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# Appendices





1

# Funding Strategy Statement (March 2020)



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# 1 Introduction

## 1.1 WHAT IS THIS DOCUMENT?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2020.

## 1.1 WHAT IS THE LONDON BOROUGH OF LAMBETH PENSION FUND?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

## 1.2 WHY DOES THE FUND NEED A FUNDING STRATEGY STATEMENT?

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

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

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

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

There are also regulatory requirements for an FSS, as given in Appendix A.

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

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

### 1.3 HOW DOES THE FUND AND THIS FSS AFFECT ME?

This depends on who you are:

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

### 1.4 WHAT DOES THE FSS AIM TO DO?

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

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

## 1.5 HOW DO I FIND MY WAY AROUND THIS DOCUMENT?

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

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

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

If you have any other queries, please contact Robert Browning – Head of Treasury & Pensions in the first instance at [RBrowning@lambeth.gov.uk](mailto:RBrowning@lambeth.gov.uk).

## 2 Basic Funding issues

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

### 2.1 HOW DOES THE ACTUARY CALCULATE THE REQUIRED CONTRIBUTION RATE?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 WHAT IS EACH EMPLOYER'S CONTRIBUTION RATE?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) *the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus*
- b) *an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.*

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 WHAT DIFFERENT TYPES OF EMPLOYER PARTICIPATE IN THE FUND?

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

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

The LGPS Regulations define various types of employer as follows:

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

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies (or **Multi Academy Trusts**), as employers of



non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies’ membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

## 2.4 HOW DOES THE CALCULATED CONTRIBUTION RATE VARY FOR DIFFERENT EMPLOYERS?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The funding target is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The time horizon required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The likelihood of achieving the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker than the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

## 2.5 HOW IS A FUNDING LEVEL CALCULATED?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level and surplus/deficit are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits/surpluses are short-term, high-level measures, whereas contribution-setting is a longer-term issue.

## 2.6 HOW DOES THE FUND RECOGNISE THAT CONTRIBUTION LEVELS CAN AFFECT COUNCIL AND EMPLOYER SERVICE PROVISION, AND COUNCIL TAX?

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will

mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund

achieves this through various techniques which affect contribution increases to various degrees (see 3.1).

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up to date. This database includes such information as the type of employer, its membership profile and funding position and any guarantors or security provision.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer-time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

## 2.7 WHAT APPROACH HAS THE FUND TAKEN TO DEALING WITH UNCERTAINTY ARISING FROM THE MCCLLOUD COURT CASE AND ITS POTENTIAL IMPACT ON THE LGPS BENEFIT STRUCTURE?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

*The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.*

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates and has taken the following action:

- When carrying out the modelling to determine the contributions to be paid by the Council, the considered various possible outcomes in terms of

the severity of current and future funding strains in relation to the McCloud judgement (as well as the potential strain from cost-sharing and GMP indexation). Contributions were set at a level such that the Council's contribution rate is effectively targeting a funding level of 105% at the 2019 valuation. Other employers in the Fund will target a funding level of 104%. These slightly elevated targets mean the Fund has increased the pace of funding in preparation for any remedy;

- When certifying exit credits and exit debts where no guarantor exists, the final liabilities will be slightly elevated (3% of active liabilities and 1% of deferred pension liabilities) to give additional protection to remaining employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate. However, the measures taken above are designed to ensure current rates are robust and are likely to remain stable no matter the outcome.

## 2.8 WHEN WILL THE NEXT ACTUARIAL VALUATION BE?

On 8 May 2019 MHCLG issued a *consultation* seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.



# 3 Calculating Contributions for Individual Employers

## 3.1 GENERAL COMMENTS

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

## 3.2 THE EFFECT OF PAYING LOWER CONTRIBUTIONS

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long-term liability (i.e. the actual eventual cost of benefits payable to their

employees and ex-employees) is not affected by the pace of paying contributions;

- lower contributions in the short term will result in a lower level of future of investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 THE DIFFERENT APPROACHES USED FOR DIFFERENT EMPLOYERS

Type of employer	Scheduled Bodies		Community Admission Bodies			Transferee Admission Bodies	
	Local Authorities	Academies	Mutual Employers	Non-mutual open to new entrants	Non-mutual closed to new entrants	With explicit written guarantee	All others
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see 2.7 and Appendix E)		Ongoing, but may move to “gilts basis” – see 2.7 and Note (a)			Ongoing, assumes fixed contract term in the Fund (see 2.7 and Appendix E)	
Primary rate approach	(see Appendix D – D.2)						
Stabilised contribution rate?	Yes - see Note (b)	No					
Maximum time horizon – Note (c)	17 years			Future Working Lifetime limited to 17 years			
Secondary rate – Note (d)	Monetary amounts	The Administering Authority reserves the right to set as a % of payroll or monetary amounts					
Treatment of surplus	Covered by stabilisation arrangement	The Administering Authority reserves the right to allow the use of any surplus within secondary rates					
Likelihood of achieving target – Note (e)	66%	70%	75%	75%	75%	70%	75%
Phasing of contribution changes	Covered by stabilisation arrangement	Phased over a period to be agreed with the Administering Authority					
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	
New employer	n/a	Note (g)	Note (h)			Notes (h) & (i)	
Cessation of participation: exit debt/credit payable	In the rare event of cessation occurring, the cessation calculation principles applied would be as per Note (j). Also see 2.7.		Can be ceased subject to terms of admission agreement. Exit valuations will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). Also see 2.7			Participation is assumed to expire at the end of the contract. Exit valuations will be calculated on the contractor exit basis unless terminated by the contractor in which case the low-risk exit basis would apply– see Note (j). Also see 2.7.	

## NOTES

### a. Gilts exit basis for CABs

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. based on the return on gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

### b. Stabilisation

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

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

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the annual stabilised rates will be 19.3% of payroll plus £12,500,000, applicable from 1 April 2020 to 31 March 2023.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria at any time where the Fund Actuary consents to the review.

### c. Maximum time horizon

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority has the overall objective of reducing all time horizons to the future working lifetime of active members ensuring any deficits or surpluses are paid for during the working lifetime of members reducing the risk of future generations of members needing to meet historical deficits. At that time, the Fund will normally expect the same period to be used at successive triennial valuations but would reserve the right to propose alternative time horizons. Based on the above, the maximum time horizon for any employer in the Fund is 17 years for the 2019 valuation of the Fund.

#### **d. Secondary rate**

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a monetary amount. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

#### **e. Likelihood of achieving funding target**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

#### **f. Regular Reviews**

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

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



### **g. New Academy conversions**

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

- i. *The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contributions rates, those of the other academies in the MAT;*
- ii. *The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;*
- iii. *The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;*
- iv. *The new academy's calculated contribution rate will be based on the time horizon and likelihood of*

*achieving the funding target outlined for academies in the table in Section 3.3 above.*

- v. *It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy will transfer to the new MAT.*

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or Department for Education ("DfE") guidance or on removal of the formal guarantee currently provided to academies by the DfE. Any changes will be notified to academies and will be reflected in a subsequent version of this FSS.

#### **New Admission Bodies**

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis. See also Note (i) below.

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

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

## **h. New Transferee Admission Bodies**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

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

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

### **i) Pooling**

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

### **ii) Letting employer retains pre-contract risks**

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or potentially entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of surplus would be determined by the Administering Authority in accordance with the Regulations.

### **iii) Fixed contribution rate agreed**

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any exit payment or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly, any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk sharing arrangement is not recognised, the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g.

via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

Any risk sharing arrangement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

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

Explicit consideration should be given to exit events within the risk sharing arrangement as well (e.g. how would the contract for services be impacted if the Fund is required to pay an exit credit or collect an exit debt?).

## i. Admission Bodies Ceasing

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making

this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a loading of 3% to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of the resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

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

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.*
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis or the contractor exit basis as described in Appendix E;*
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay*

*the contributions due, and this is within the terms of the guarantee.*

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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

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



### 3.4 POOLED CONTRIBUTIONS

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

The intention of any pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for small employers unless these are smoothed out, for instance, by pooling across a number of employers.

On the other hand, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

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

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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

### 3.5 ADDITIONAL FLEXIBILITY IN RETURN FOR ADDED SECURITY

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

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

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

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

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

### 3.6 NON ILL HEALTH EARLY RETIREMENT COSTS

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. With the agreement of the Administering Authority the payment can be spread up to a maximum of 3 years.

### 3.7 ILL HEALTH EARLY RETIREMENT COSTS

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below). With the agreement of the Administering Authority, the additional contributions can be spread up to a maximum of 3 years where a strain payment is not met by an external insurer.

### 3.8 EXTERNAL ILL HEALTH INSURANCE

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation. As a result, if an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of ill health allowances versus experience (as typically required for some employers).

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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

### 3.9 EMPLOYERS WITH NO REMAINING ACTIVE MEMBERS

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

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

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

### 3.10 POLICIES ON BULK TRANSFERS

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

The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the cash equivalent transfer values of transferring members determined using GAD guidance and factors;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

# 4 Funding Strategy and Links to Investment Strategy

## 4.1 WHAT IS THE FUND'S INVESTMENT STRATEGY?

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

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

## 4.2 WHAT IS THE LINK BETWEEN FUNDING STRATEGY AND INVESTMENT STRATEGY?

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

Therefore, the funding and investment strategies are inextricably linked.

## 4.3 HOW DOES THE FUNDING STRATEGY REFLECT THE FUND'S INVESTMENT STRATEGY?

The Fund Actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumption is also consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1). Therefore, In the opinion of the Fund Actuary, the current funding policy is consistent with the current investment strategy of the Fund.

In the short term – such as at formal valuations – there is the scope for considerable volatility in asset values. However, the Fund Actuary takes a long-term view when assessing employer contribution rates and the contribution rate methodology takes into account this potential variability.

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

#### 4.4 DOES THE FUND MONITOR ITS OVERALL FUNDING POSITION?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a quarterly basis.



# 5 Statutory Reporting and Comparison to other LGPS Funds

## 5.1 PURPOSE

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions is set at an appropriate level to ensure both the solvency and the long-term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

## 5.2 SOLVENCY

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) *the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either*
- (b) *employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or*
- (c) *there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.*

## 5.3 LONG-TERM COST EFFICIENCY

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if:

- i. *the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,*
- ii. *with an appropriate adjustment to that rate for any surplus or deficit in the Fund.*

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. *the implied deficit recovery period; and*
- 2. *the investment return required to achieve full funding after 20 years.*

Absolute considerations include:

the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

- 1. *how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;*

2. *the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and*
3. *the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.*

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

# Appendix A – Regulatory framework

## A1. WHY DOES THE FUND NEED AN FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

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

## A2. DOES THE ADMINISTERING AUTHORITY CONSULT ANYONE ON THE FSS?

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

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

- a) *Issuing a final draft version of the FSS to employers for feedback in December 2019;*
- b) *Holding an Employers Forum on 14 January 2020 at which questions regarding the FSS could be raised and answered;*
- c) *Following the end of the consultation period the FSS was updated where required and then published, in March 2021.*

## A3. HOW IS THE FSS PUBLISHED?

The FSS is made available on the Fund’s website at [www.lgpslambeth.org](http://www.lgpslambeth.org).

#### A4. HOW OFTEN IS THE FSS REVIEWED?

The FSS is reviewed in detail as part of every formal valuation of the Fund. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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

In any event, changes to the FSS would need agreement by the Pension Fund Investment Committee and would be included in the relevant Committee Meeting minutes.

#### A5. HOW DOES THE FSS FIT INTO OTHER FUND DOCUMENTS?

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

These documents can be found on the web at [www.lgpslambeth.org](http://www.lgpslambeth.org).

# Appendix B – Responsibilities of Key Parties

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

## B1. THE ADMINISTERING AUTHORITY SHOULD:

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;

10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

## B2. THE INDIVIDUAL EMPLOYER SHOULD:

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



### B3. THE FUND ACTUARY SHOULD:

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

### B4. OTHER PARTIES:

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures; and
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

# Appendix C – Key Risks and Controls

## C1. TYPES OF RISK

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

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

## C2. FINANCIAL RISKS

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

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p>
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
Effect of possible asset underperformance as a result of climate change	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of potential reduction in future returns.</p> <p>Regularly consider ESG as part of setting and monitoring the Fund's investment strategy.</p>

### C3. DEMOGRAPHIC RISKS

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

### C4. REGULATORY RISKS

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider appropriate action once more information is known.</p> <p>The Government's long-term preferred solution to GMP indexation and equalisation – conversion of GMP's to scheme benefits – was built into the 2019 valuation.</p> <p>The Administering Authority is monitoring any progress in terms of MHCLG and SAB's cost sharing mechanisms and will consider appropriate action once more information is known.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

### C5. GOVERNANCE RISKS

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

Risk	Summary of Control Mechanisms
	<p>external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<p>The Administering Authority regularly monitors admission bodies coming up to cessation.</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

# Appendix D – The Calculation of Employer Contributions

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

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

## D1. WHAT IS THE DIFFERENCE BETWEEN CALCULATIONS ACROSS THE WHOLE FUND AND CALCULATIONS FOR AN INDIVIDUAL EMPLOYER?

Employer contributions are normally made up of two elements:

- a) *the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus*
- b) *an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).*

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

## D2. HOW IS THE PRIMARY CONTRIBUTION RATE CALCULATED?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note € for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson (the "Economic Scenario Service"): this allows for a wide range of outcomes as regards key



factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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

### D3. HOW IS THE SECONDARY CONTRIBUTION RATE CALCULATED?

The Fund aims for each employer to have assets which meet 100% of their accrued liabilities as the end of their funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using the Economic Scenario Service which allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

### D4. WHAT AFFECTS A GIVEN EMPLOYER'S VALUATION RESULTS?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

## D5. HOW IS EACH EMPLOYER'S ASSET SHARE CALCULATED?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- a) *A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.*
- b) *A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.*

Until 31 March 2019, the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

As part of the cashflow approach, the Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

## D6. HOW DOES THE FUND ADJUST EMPLOYER ASSET SHARES WHEN AN INDIVIDUAL MEMBER MOVES FROM ONE EMPLOYER IN THE FUND TO ANOTHER?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another existing employer, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV).

# Appendix E – Actuarial Assumptions

## E1. WHAT ARE THE ACTUARIAL ASSUMPTIONS USED TO CALCULATE EMPLOYER CONTRIBUTION RATES?

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

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

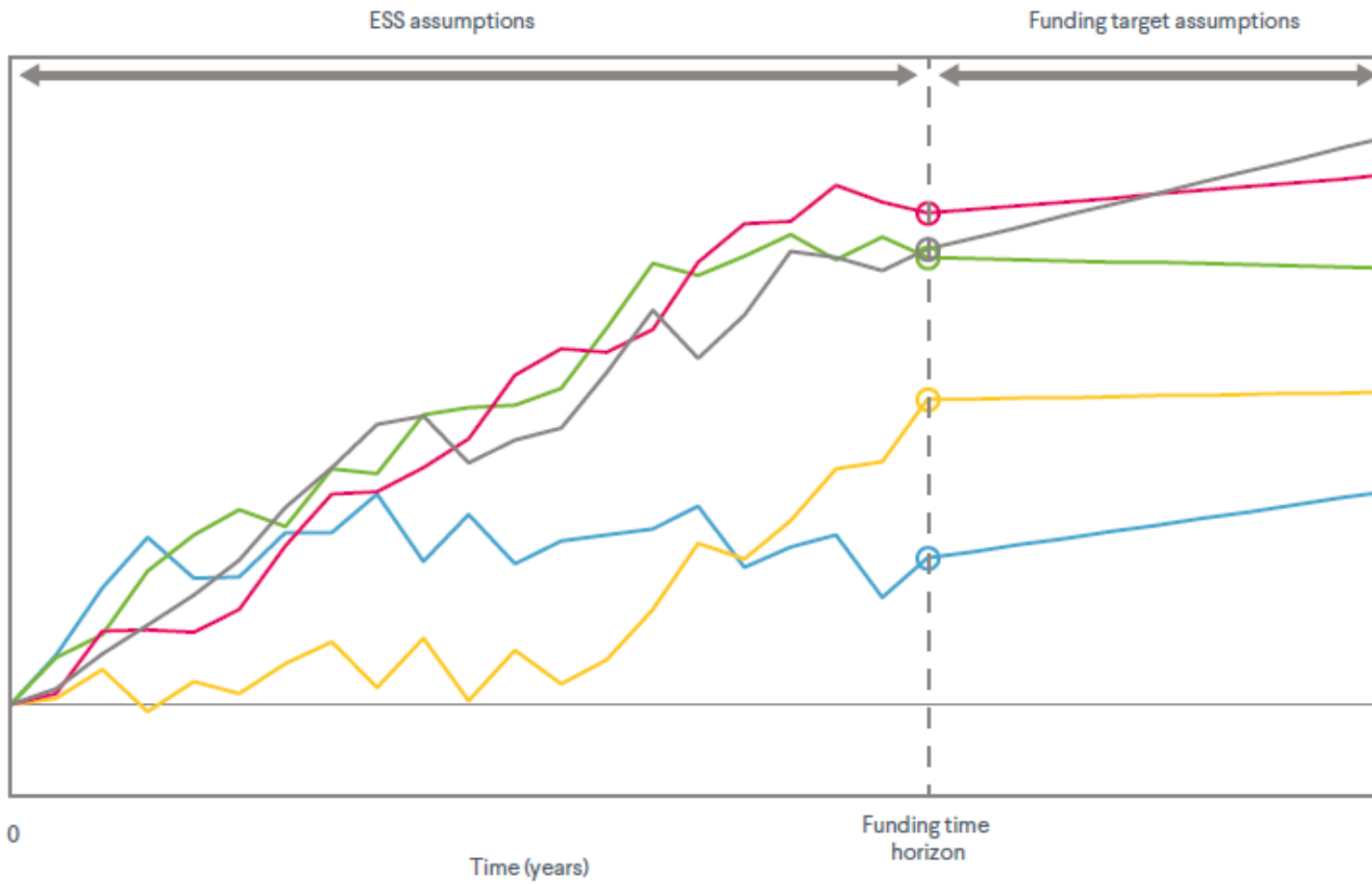
The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the

employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon.

This approach is set out in the below chart:



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2. WHAT ASSUMPTIONS ARE USED IN THE ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns						A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property				
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	<b>Volatility (Disp) (1 yr)</b>	1%	7%	10%	17%	17%	14%	11%	1%		



### E3. WHAT ASSUMPTIONS ARE USED IN THE FUNDING TARGET?

At the end of an employer’s funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are future inflation expectations and the prevailing risk free rate of return (the yield on long-term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer’s funding target.

Funding basis	Ongoing basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer’s funding target (at the end of its time horizon)	Long-term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long-term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long-term government bond yields with no allowance for outperformance on the Fund’s assets

#### E4. WHAT OTHER ASSUMPTIONS APPLY?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

##### a) *Salary growth*

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 4% p.a. until 31 March 2020, followed by
2. 2% p.a. until 31 March 2023, then
3. 0.5% p.a. above the Consumer's Prices Index (CPI) thereafter.

This gives a single "blended" assumption of CPI plus 0.5% p.a.. This is a small change from the previous valuation, which assumed a blended assumption of CPI plus 0.4% per annum.

##### b) *Pension increases*

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have used a reduction of 1.0% per annum which is unchanged from the previous valuation.

##### c) *Life expectancy*

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in

Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

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

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding targets (all other things being equal).

This approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members' benefits.

##### d) *General*

The same financial assumptions are adopted for most employers (the ongoing basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

# Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the values of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, benefit increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer-term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for

	an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of

	them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme

	(e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and primary contribution rates. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the primary and secondary contributions, and other statutory information for a fund, and usually individual employers as well.





# 2

## Investment Strategy Statement (February 2020)



## STATUTORY REQUIREMENT FOR AN INVESTMENT STRATEGY STATEMENT (ISS)

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;

- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect replaces Schedule 1 of the 2009 Regulations.

This document is designed to comply with the guidance given by the Secretary of State and is effective from March 2020. It is proposed to review the ISS annually with any material changes published, which is more regularly than the Regulations require, but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

### Myners Principles

Although not specifically referenced in the Regulations, the Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. The Fund is committed to reporting on Myners Principles as part of its Annual Report (Appendix A).

## BACKGROUND TO THE FUND

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

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

## PRIMARY OBJECTIVE

The primary objective of the Fund is as follows:

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

This overall objective is supplemented by the Fund's funding and investment objectives which are detailed in this document.

### **1. Approach to risk, including the ways in which risks are to be measured and managed**

#### Objectives of the investment strategy

The Funds primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Fund also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Fund. In formulating the Investment Strategy, the Fund must first consider its Funding Strategy.

#### Funding Strategy

The objectives of the Fund's funding strategy, as detailed in the Funding Strategy Statement, are as follows:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;

- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target.

#### Setting the Strategy

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the fund's overall objectives. The objectives for the Lambeth Fund are considered below:

To invest in assets to target as a minimum a rate of return of 3.1% p.a. consistent with the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2019 with the weighting between constituent asset classes determined to reduce the expected volatility of the funding level going forward.

The Committee has determined its investment strategy after considering the Fund’s liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Employers on investment strategy, the Employers’ appetite for risk. The Committee have also received written advice from their Investment Advisers.

Against these strategic targets, the Committee regularly reviews its Investment Strategy (on a yearly basis) and in doing so considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Lambeth Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers and more recently the London CIV to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Lambeth Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and

interest rate sensitivity. In setting and reviewing an overall investment strategy for the Lambeth Fund the starting point is always the Actuary’s assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

### Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment adviser. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

### Setting investment objectives

- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Plan benchmark
- Reviewing the investment objectives and strategic asset allocation

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take

account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

## **2. Investment strategy and the process for ensuring suitability of investments.**

The Fund’s strategic benchmark, as set out below, does not assume any outperformance from the investment managers. The Minimum and Maximum range allowed acts as the Fund’s own limit on its investment strategy and ensures compliance with the guidance which requires this. The expected risks and returns stated in this table are as at the date of the 2020 strategic review.

As noted above, the Fund’s objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving the required real returns, without taking undue risk. The asset strategy, along with an overview of the role each asset plays in achieving the Fund’s objectives is set out in the table below:

<b>Asset Class</b>	<b>Strategic allocation</b>
Developed Global Equity	30.0%
Emerging Market Equity	10.0%
Property	15.0%
Private Credit	12.0%
MAC	12.0%
Private Equity	5.0%
LDI	15.0%
Cash	1.0%

The Committee is responsible for the Fund’s asset allocation which is determined via a triennial strategy

review as part of the valuation process but is kept under constant review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

### 3. Risk measurement and management

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following paragraphs explain the Lambeth's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus to reduce the contributions required to Fund the liabilities over time. However, this type of strategy would be

expected to lead to volatile short to medium term results, both in absolute terms and, particularly, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the Funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, a number of these are considered below:

#### [A Investment Risks](#)

**Equities** – The largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in other diversifying assets. The Committee will also consider the use of equity options where appropriate.

**Currency Risk** – This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

**Interest rate risk** – This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments. The Committee acknowledge that the interest rate risk related to individual debt instruments, and particularly liability driven instruments (LDI), is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management, and hedging via swaps, particularly where LDI is involved.

**Inflation** – The Fund's liabilities are impacted by inflation both explicitly and implicitly and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility. The Committee acknowledge that inflation risk relating to the Fund's liabilities is managed by the underlying investment managers through a combination of strategies, such as diversification, investing in assets that are expected to move in line with inflation over time, and hedging via swaps, particularly where LDI is involved.

**Diversifying assets** – The Fund has a significant amount of assets allocated to a range of non-equity, diversifying assets, with allocations to property, MAC

and private debt. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term these assets will provide returns that compensate for the risks being run. Additionally, the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income. The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can reduce the overall level of risk run to a degree.

**Active Manager Risk** – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are active managers. Active manager risk is small relative to other risks; the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers employed to prevent manager concentration risk. The investment managers are also monitored regularly by the Committee and by the Fund's Advisors.

### B Demographic Risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and

formally as part of the actuarial valuation and strategy review.

### C Solvency Risks

**Mismatching Risk** – The Fund measures this through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities. These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

**Cash Flow Risk** – The Fund is cash flow negative. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews with the long-term aim that a portfolio of income generating assets is built up over time.

### D Governance Risks

The Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

The Committee manages this risk by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

### E ESG Risks

The Committee believes that ESG (including climate change) risks should be taken into account on an ongoing basis. ESG considerations are an integral part

of the Fund's strategy and objective of being a long term investor. The Committee expects its investment managers to include information on how fossil fuels are being managed within their respective portfolios as part of regular reporting for the Fund.

The Fund encourages its underlying investment managers to comply with the UK Stewardship Code and will monitor progress, as well as monitor the ESG ratings of its Fund managers by way of an annual report from its Investment Consultant on the ESG credentials of its investment managers.

The Fund has committed to reduce climate change risk by reducing fossil fuels within the Fund's portfolio. The Committee expects to continuously review further opportunities, across all asset classes, to reduce the Fund's reliance on sensitive assets by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes.

The Committee accepts that a combination of both engagement and exclusion (as necessary) is key in relation to strong corporate governance, which in turn will reduce ESG risks.

## **4. Approach to asset pooling**

The Lambeth Fund has formally joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and has opened a range of sub-funds covering liquid asset classes and is in the process of opening less liquid asset classes.

The Fund already invests assets with the London CIV (c. £650m or c.43% as at 31 December 2019) and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.



A proportion of the Fund is invested in illiquid assets outside of the pool, these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to dis-invest.

The Fund will actively engage and seeks to work collaboratively with likeminded Funds, London CIV on climate change and ESG topics, including the provision of fund alternatives that will help London CIV members, reduce ESG risks and invest in sustainably themed opportunities in their investment portfolios.

## **5. Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments**

The Committee believe that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members.

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

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

Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund’s policy on exercising voting rights is explained in section 7 below.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

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

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

## **6. Policy of the exercise of rights (including voting rights) attaching to investments and stewardship**

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership

rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

As responsible shareholders, the London Borough of Lambeth Pension Fund will endeavour to vote (via our agents) on shareholder resolutions in accordance with these Policies. We will be transparent in explaining the reasons for voting decisions. As companies vary in size and complexity, these Policies must allow for some flexibility, with due consideration to the particular circumstances of each company. Moreover, corporate governance requirements may be expressed differently in different markets; these Policies will be applied in a way that reflects an understanding of local and international good practice.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Shareholder Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

#### UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010 which has subsequently been revised. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term

risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorized Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The revised UK Stewardship Code 2020, which takes effect from 1 January 2020, is a substantial and ambitious revision to the 2012 edition of the Code. The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

The London Borough of Lambeth as administering authority for the Lambeth Pension Fund is not currently a signatory to the Stewardship Code. However, the Fund attempts to follow the principles, and plans to become a signatory in time.

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 12 Principles of the Stewardship Code.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

#### Advice Taken

In creating this statement, the Committee has taken advice from its Investment Consultant and independent Investment Advisor. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

# APPENDIX A - Myners Investment Principles - Compliance Statement

The Myners Principles were reviewed by the NAPF during 2008 and a revised set of six principles were issued in October 2008. CIPFA expect to issue a new publication based on the revised six principles in the near future.

## PRINCIPLE 1 - EFFECTIVE DECISION- MAKING

Committee members should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Committee members should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

## PRINCIPLE 2 - CLEAR OBJECTIVES

Committee members should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the Committee members and the sponsor, and clearly communicate these to advisers and investment managers.

## PRINCIPLE 3 - RISK AND LIABILITIES

In setting and reviewing their investment strategy, Committee members should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

## PRINCIPLE 4 - PERFORMANCE ASSESSMENT

Committee members should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Committee members should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

## PRINCIPLE 5 - RESPONSIBLE OWNERSHIP

Committee members should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Investment Strategy Statement. Committee members should report periodically to members on the discharge of such responsibilities.

## PRINCIPLE 6 - TRANSPARENCY AND REPORTING

Committee members 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.

Committee members should provide regular communication to members in the form they consider most appropriate.





# 3

## Communications Policy (April 2022)



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# Communications Policy

## INTRODUCTION

This is the Communications Policy Statement of the London Borough of Lambeth Pension Fund, administered by Lambeth Council, the Administering Authority.

On 31 March 2022 the Fund had 28 employers and over 21,000 Scheme members. The delivery of the benefits payable under the Local Government Pension Scheme involves communication with a number of interested parties.

This Statement provides an overview of how we communicate and how we measure whether our communications are successful. It is effective from 1 April 2022.

Any enquiries in relation to this Statement should be sent to:

Lambeth Pensions  
PO Box 734  
Winchester  
SO23 5DG

Telephone: 0207 926 3333

Email: [Pensions@Lambeth.gov.uk](mailto:Pensions@Lambeth.gov.uk)

## REGULATORY FRAMEWORK

This Statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provisions require the Council as the Administering Authority to:

“...prepare, maintain and publish a written statement setting out its policy concerning communications with:

- (a) *members.*
- (b) *representatives of members.*
- (c) *prospective members and*
- (d) *Scheme employers.”*

In addition it specifies that the statement must include information relating to:

- (a) *“the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) *the format, frequency and method of distributing such information or publicity; and*
- (c) *the promotion of the Scheme to prospective members and their employers.”*

As a provider of an occupational pension scheme, the Council is already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other relevant legislation, for example the Pensions Act 2014. The Regulations are supported by a Code of Practice. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of

it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Measurement section of this document.

## RESPONSIBILITIES AND RESOURCES

Communications material is provided through the Lambeth Pensions Team. The team write all internally produced communications including information published on the internet/intranet. They are also responsible for arranging all forums and meetings covered within this Statement. The team reports through the Council's management structure with ultimate responsibility for ensuring compliance with the Regulations resting with the Strategic Director of Resources. Printing documentation is carried out externally through Lambeth Council's print service provider.

## COMMUNICATION WITH KEY AUDIENCE GROUPS

Our audience

The Pensions Team communicates with a number of stakeholders on an on-going basis. For the purpose of this Statement, the team engages with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- scheme employers;
- union representatives;
- Pension Committee;
- Pension Board;
- Pensions Team staff;

- local taxpayers and residents;
- other stakeholders / interested parties

In addition there are a number of other stakeholders with whom the Council communicates on a regular basis including Her Majesty's Revenue and Customs (HMRC), Department for Levelling Up, Housing and Communities (DLUHC), Department of Works and Pensions (DWP), Money and Pensions Service, solicitors, actuaries and other pension providers. The Council has also considered, as part of this policy, how it communicates and engages with these interested parties.

## HOW WE COMMUNICATE

### General communication

The Council has put in place a number of initiatives that will assist in moving towards the Government's e-gov agenda and has developed alternative communications media (e.g. documents in large print, etc.) to ensure that it caters for the needs of special groups. Additionally, the team utilises the Council's internet/intranet facilities and has a dedicated Lambeth Pensions website and Member Self-Service facility.

Within the Pensions Team, staff are responsible for the administration of the Local Government Pension Scheme. Any member of staff within the team can deal with general telephone calls, written correspondence, email queries, visitors or queries via Member Self-Service. Communications on more complicated pension issues are managed amongst the senior management.

## Branding

As the Pension Fund is administered by Lambeth Council, all literature and communications conform to the Council's branding policy.

## Accessibility

The Council serves a culturally rich and diverse client base and is conscious of the fact that access to information requires varied forms of communication. Any material required in an alternative format or language is managed in line with a specific request.

## POLICY ON COMMUNICATION WITH ACTIVE, DEFERRED AND PENSIONER MEMBERS

Our objectives with regard to communication with members as groups are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to educate and explain to members the benefits of the LGPS.
- to provide the diverse client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- as a result of improved communication, for enquires and complaints to be resolved at the earliest opportunity and to the client's satisfaction.
- in line with the Government's agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.

### Explanation of communications

**Scheme Guide** - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

**Newsletters** – Mainly an annual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as UK pension

- to ensure that all relevant stakeholders have sufficient material to hand to inform pension-related judgements.

In addition, as required, appropriate communications with individual members covering their own particular circumstances are arranged.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Scheme Guide	Paper based and Lambeth's intranet and Pension Fund website	At joining and at the time of major scheme changes	Online and if required, post to home address	Active members
Newsletters	Paper based and Lambeth's intranet and Pension Fund website	Annually and ad hoc to ensure timely notification of major scheme changes	Online and if required, post to home address	Separately for active (on-line), deferred and pensioner members
Pension Fund Annual Report and Financial Statements	Lambeth's Internet and Pension Fund website	Annually	Online and hard copy on request	All members
Annual Benefit Statements	Paper based and through Member Self Service	Annually	Post to home address (deferred) Member Self Service (Actives)	Active and deferred members
Website – Lambeth Intranet/Internet/Pension Fund website	Electronic	Continually available	As required	All members
One to one sessions	Personal interview	On request	As requested	All members
Presentations	On-site or virtually	On request and (during Lambeth Staff Conference)	As requested Annually	Active members

matters, payroll pay dates/deadlines, contact details, etc.

#### Pension Fund Annual Report and Financial Statements

– Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details, (e.g. current employer bodies and Scheme membership numbers.

**Annual Benefit Statements** – For active members these include the current value of benefits to 31

March as well as the projected benefits at Normal Pension Age. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. For deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

**Websites** – The mentioned websites provide scheme specific information, forms that can be printed or downloaded, access to documents (e.g. newsletters and Annual Report), frequently asked questions and answers, links to related sites and contact information.

**One to one education sessions** – These sessions offer the individual a confidential interview with a member of the team.

**Presentations** – Sessions can be requested by employers. These sessions can be of a general overview or can cover specific aspects of the Scheme.



## POLICY ON COMMUNICATION WITH PROSPECTIVE MEMBERS AND THEIR EMPLOYING BODIES

Our objectives with regard to communication with prospective members are:

- to facilitate the LGPS to be used as a tool in the recruitment and retention of employees, thereby assisting both the Council and associated bodies in becoming employers of choice.
- to educate and explain to members the benefits of the LGPS.
- to provide the diverse prospective client base with increased opportunity to engage on pension related matters through the most appropriate medium.
- in line with the Government’s agenda in relation to individuals making adequate financial arrangements for retirement, increase take up of LGPS membership.
- to ensure that prospective members have sufficient material to hand to inform pension-related judgements.

The Pensions Team do not have immediate access to prospective members but the benefits of a defined benefits scheme are referenced in job vacancy advertisements. Promotional material and educational visits are provided for employing bodies.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Overview of the LGPS – Brief Scheme Guide	Paper based and Lambeth’s Pension Fund website	On commencement of employment	Starter pack	New employees

### Explanation of communications

**Overview of the LGPS – Brief Scheme Guide** – A brief guide that summarises the costs of joining the LGPS and the benefits of doing so. All this information is available on Lambeth’s Pension Fund website.

## POLICY ON COMMUNICATION WITH EMPLOYING BODIES

Our objectives with regard to communication with employers are:

- to establish sound working arrangements to assist with a free flow of relevant information.
- given the costs associated with funding a defined benefits scheme, to provide the employing bodies with sufficient information to assist them in their planning for future employer contribution rates.
- to provide an infrastructure that will assist in maintaining an accurate database.
- to provide literature and processes around starters, changes during employment, leavers and retirees thereby ensuring smooth data transfers in relation to all staffing issues.
- to ensure that each employing body understands the benefits of being an LGPS employer.
- to assist the employing body in the development of its discretionary policies.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Employers Guide	Electronic file format and Lambeth's Internet and Pension Fund website	At joining	Email and online	Employer's main contact
Employer Forums	Meeting with key employing body personnel	Annually (as required)	Meeting	Employing body management
Pension Fund Annual Report and Financial Statements	Lambeth's Internet and Pension Fund website	Annually	Online	Employing body
FRS102/IAS19 report	Electronic file format	Annually	Email	Employing body
Service Level Agreement	Electronic file format.	Start of admission	Hard copy and email	Employing body

### Explanation of communications

**Employers Guide** – A detailed publication that provides guidance on the employer's duties and responsibilities. It assists an employer in ensuring that it meets its statutory obligations within the prescribed timescales.

**Employer Forums** – A formal seminar style event where the Pensions Team provide an update on employer related matters and the triennial actuarial valuation.

**Pension Fund Annual Report and Financial Statements** – Details of the value of the Pension Fund at the end of the financial year, income and expenditure during the year as well as other related details, (e.g. current employer bodies and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request.

**FRS102/IAS19 Report** – This is a national accounting standard that all authorities administering pension funds must follow. FRS102/IAS109 requires an organisation to account for retirement benefits when it is committed to provide them, even if the actual provision will well in the future.

**Service Level Agreement** – A document that sets out, alongside the admission agreement, the duties and responsibilities of the Council and the employing body for the duration of the service contract.

## POLICY ON COMMUNICATION WITH UNION REPRESENTATIVES

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the Scheme to union members
- to ensure the unions are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the Scheme
- to engage in discussions over the future of the Scheme and to ensure that Union representatives have sufficient knowledge and opportunity to respond on all DLUHC and HMRC consultations
- to harness union communications in a joint venture to explain the benefits of the LGPS to prospective and current members
- to liaise with unions and provide assistance in supporting union officers in their learning and understanding of the LGPS.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Education sessions	Paper based and electronic	On request	Various	Union representatives
Pension Committee and Pension Board	Reports and meetings	In line with published Committee / Board cycle	Notification through Democratic Services	Named union observers

### Explanation of communications

**Education sessions** – sessions that are available on request for union representatives, [e.g. to improve their understanding of the basic principles of the scheme or to explain possible changes to policies]

**Pension Fund Committee and Pension Fund Board meetings** – formal meetings of Elected Members and Scheme member representatives, attended by Council senior officers, investment managers, invited pensions specialists and union members.

## POLICY ON COMMUNICATION WITH THE PENSION COMMITTEE

Our objectives with regard to communication with the Pension Committee are:

- to ensure that Members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.
- to seek Member approval to the development or amendment of discretionary policies,
- to seek Member approval to formal responses to government consultation in relation to the scheme.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Training sessions	Pension seminars	In line with Elected Member training plan	LGPS specific seminars	All Committee members
Briefing papers	Electronic	As and when required	Email	All Committee members
Pension Committee meetings	Meeting	In line with published Committee cycle	Email or hard copy	All Committee members
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	All Committee members

### Explanation of communications

**Training Sessions** – providing a broad overview of the main provisions of the LGPS, and Member’s key duties and responsibilities.

**Briefing papers** – briefings highlight key issues and developments in the LGPS.

**Pension Committee Meetings** – reports submitted to the Committee.

**Report and Verbal Briefing** – occasions when Members require briefing on forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.

## POLICY ON COMMUNICATION WITH THE PENSION BOARD

Our objective with regard to communication with the Pension Board is:

- to ensure that the Board members receive sufficient reports, briefings and training to allow them to carry out their statutory duties and responsibilities in line with LGPS legislation.

Our objective is met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Training sessions	Pension seminars	In line with Elected Member training plan	LGPS specific seminars	All Board members
Briefing papers	Electronic	As and when required	Email	All Board members
Pension Board meetings	Meeting	In line with published Board cycle	Email or hard copy	All Board members
Report and verbal briefing	Meeting	As and when required	Report and verbal briefing	All Committee members

### Explanation of communications

**Training Sessions** – providing a broad overview of the main provisions of the LGPS, and the Board’s key duties and responsibilities.

**Briefing papers** – a briefing that highlights key issues and developments to the LGPS.

**Pension Board Meetings** – reports submitted to the Board.

**Report and Verbal Briefing** – occasions when Members require briefing on forthcoming pension changes that could impact on Corporate Priorities or have significant budget implications.



## POLICY ON COMMUNICATION WITH PENSIONS TEAM

Our objectives with regard to communication with Pensions Team staff are:

- to ensure they are aware of changes and proposed changes to the LGPS scheme
- to provide new and established staff with access to both internal and external training
- through a combination of utilising task management (pensions system workflow) and re-engineering service processes to monitor and develop potential for service improvements; readjusting performance measures and targets, where appropriate.

Our objectives are met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Identify training/development needs as part of Appraisal	Appraisal documentation	Annual exercise, reviewed at 6 months. Informal bimonthly meetings	Appraisal process	All Pensions Team staff
Staff meetings	Informal briefings	As and when required	By arrangement	All Pensions Team staff
Attendance at external courses	Externally provided	As and when required	By email, paper based	All Pensions Team staff

### Explanation of communications

**Appraisal** – Formal staff review process where future training/development needs are identified in relation to the Team’s strategic priorities.

**Staff meetings** – Informal training sessions which provide new and established staff with timely update on changes to pensions legislation or processes.

**Attendance at external courses** – to provide more tailored training where it is cost effective to use external trainers.

## POLICY ON COMMUNICATION WITH TAX PAYERS AND RESIDENTS

Our objective with regard to communication with tax payers is:

- to provide key information in a timely manner, ensuring full compliance with the requirements of the Data Protection and Freedom of Information Acts.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Reports/written response/electronic postings	Various	Reports published annually and when otherwise required in relation to general enquiries	Various	All Lambeth tax payers and residents

### Explanation of communications

Reports/written response/electronic postings – Annual reports are published either through established communications (e.g. newsletters) or posted on the Council’s Pension Fund website. Other ad hoc requests are responded to in light of the specific information requested utilising the most appropriate communications medium.

## POLICY ON COMMUNICATION WITH OTHER STAKEHOLDERS / INTERESTED PARTIES

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our statutory obligations in relation to notifications and consultations
- to ensure the proper administration of the Scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution schemes

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of issue	Method of distribution	Audience group
Pension Fund Valuation reports <ul style="list-style-type: none"> <li>• Rates and Adjustment Certificate</li> <li>• Revised Rates and Adjustment</li> <li>• Certificate Cessation valuations</li> </ul>	Electronic	Every three years	Email	DLUHC, HMRC and all Scheme employers
New admission agreements	Hard copy or electronic format	As new employers are entered into the Fund	Post/ electronic transfer	New admitted bodies
Resolution of pension disputes	Hard copy or electronic format	As and when a dispute requires resolution	Email/ post of via Pension Fund website	Scheme member or his/her representatives, the Pensions Advisory Service/ the Pensions Ombudsman
Completion of questionnaires	Hard copy or electronic format	As and when required	Email or post	As required

### Explanation of communications

**Pension Fund Valuation Reports** – a statutory report issued every three years by the Scheme appointed actuary, setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

**Resolution of pension disputes** – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

We also communicate regularly with the following in various ways (email, post, face to face and virtual meetings and seminars):

- Investment Managers (including London Pension Collective Investment Vehicle (LCIV))
- Actuaries
- Department for Levelling Up, Housing and Communities (DLUHC)
- Other Pension Funds

## PERFORMANCE MEASUREMENT

The Pensions Team already has performance measures set in place and in order to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

### Timeliness

We will measure against the following target delivery timescales:

Method of communication	Audience	Statutory delivery period	Target delivery period
Scheme booklet	New joiners to the LGPS	Within two months of joining	Within 10 working days of joining
Annual Benefit Statements as at 31 March	Active members	31 August	July/early August each year
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	Within 8 working days of retirement and relevant paperwork being received
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within 10 working days of relevant paperwork being received
Transfers in	Joiners/active members	Within two months of request	Within 25 working days of relevant paperwork being received
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Financial Statements	All	Within two months	Within 20 working days

### Results

The Pension Board receives reports on performance at each of its meetings.

## REVIEW PROCESS

Our Communications Policy Statement will be reviewed on an annual basis, to ensure it meets audience needs and regulatory requirements. A current version of the Statement will always be available on the Lambeth Pension Fund website at <http://www.lgpslambeth.org> or from the Pensions Team at:

Lambeth Council  
2nd Floor Town Hall  
2 Brixton Hill  
London SW2 1RW



