GOVERNANCE ISSUES

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Papers with this report	Appendices A & B

SUMMARY

This report is to provide an update on Pension Fund Governance issues. During the last quarter several policy documents have been updated and two are now brought to committee for approval.

RECOMMENDATIONS

That the Committee:

1. **approve the revised Governance Policy Statement;**
2. **agree the amendments to the Funding Strategy Statement; and**
3. **note the remaining contents of the report.**

1. Governance Policy Statement

In accordance with The Local Government Pension Scheme (Amendment) (No.2) Regulations 2005, the Council must publish and keep up to date a Governance Policy Statement. During the last quarter, Officers have reviewed this document specifically to:

- Include the Pensions Investment Sub-Committee, which is shown as a separate body reporting to the Pensions Committee and their Terms of Reference have been added, and
- The title of the Chief Finance Officer has replaced the previously shown Director of Finance and Business Services.

The revised Governance Policy Statement is attached at Appendix A. All amendments have been highlighted in bold italics. The Governance Policy Statement was last agreed by Committee in March 2008.

2. Funding Strategy Statement

The Funding Strategy Statement forms part of a framework covered by the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Administration) Regulations 2008. During the last quarter Officers have reviewed this statement specifically to:

- To amend Annex A to show the change of name of an admitted body from Yes Dinning to Genuine Dining Ltd and
- To amend individual Employer Contribution rates for schools which have converted to Academy status.

The revised Funding Strategy Statement is attached at Appendix B. All amendments have been highlighted in bold.

3. Statement of Investment Principles

The Statement of Investment Principles was updated at Appendix D to amend the comparative Indices for JP Morgan, M&G and the State Street Asia Pacific Equity Index sub-fund, to align with the current agreed indices.

4. Risk Report

A review of the pension fund risks was undertaken at the end of the quarter and there are no changes to report to Committee.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report.

LEGAL IMPLICATIONS

There are no direct financial implications arising directly from the report.

Governance Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO. 2) REGULATIONS 2005

Issued by: Pension Section, Finance and Property Department
Authorised by: Pensions Committee September 2012

CONSTITUTION

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.

LONDON BOROUGH OF HILLINGDON COUNCIL

PENSIONS COMMITTEE

PENSIONS INVESTMENT SUB-COMMITTEE

CHIEF FINANCE OFFICER

DELEGATED OFFICERS

The Constitution allows for the appointment of a Pensions Committee and a Pensions Investment Sub-Committee, which have the following Terms of Reference:

PENSIONS COMMITTEE

Membership

Councillor membership of the Committee will be politically balanced and have voting rights. Other members of the Committee do not have voting rights and will include 2 Trade Union members and 2 Non-Trade Union Scheme Members (1 Non-active Member and 1 active Member).

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.

2. To review the Statement of Investment Principles and amend it when necessary.

3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.

4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.

5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.

6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.

7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.

8. To authorise the admission of other bodies to the Fund.

9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.

10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.

11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.

PENSIONS INVESTMENT SUB-COMMITTEE

Introduction

To discharge the functions of the Pensions Committee aimed at improving market governance across the Pension Fund and the operational effectiveness of Investment Strategy.

Membership

Membership of the Sub-Committee will consist of 3 Councillors from the Pensions Committee, politically balanced. The quorum for attendance will be 2 Councillors. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers.
Terms of Reference

1. ***To maintain a business plan for its activity and evaluates progress against this plan.***

2. *To monitor financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework, and reports any issues or breaches to the Pension Committee.*

3. *To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Sub-Committee has delegated authority to:*

   - *Increase or decrease the allocation to equities, bonds or property*
   - *Increase or decrease the amounts / proportions of assets in manager mandates*
   - *Increase or decrease the level of currency hedging in place*
   - *Select investments for, or dispose of existing investments in, the "opportunity fund" (10% of assets), using the feeder fund.*

4. *To consider the framework for the allocation of new money among managers. Similarly, in the event that assets need to be realised, the Sub-Committee also considers this matter.*

5. *To formally review annually the mandates of the managers, and their adherence to their expected investment process and style. This ensures that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.*

6. *To consider the need for any changes to the investment managers' mandates (e.g. in relation to continuing appropriateness of benchmarks and operating guidelines).*

7. *To consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) and makes recommendations to the Pension Committee.*

8. *In the event of a proposed change of managers, to evaluate the credentials of potential managers. To make recommendations to the Pension Committee in respect of any change of managers.*

9. *To monitor the investment advice from their investment consultant and investment adviser at least annually. To also review their own decision making process at the same time.*

10. *To be responsible for maintenance of the Fund's Statement of investment Principles (SIP)*

11. *To carry out any additional tasks delegated to it by the Pension Committee.*

The Sub-Committee keeps asset allocation within guidelines set by the Pension Committee. Within these guidelines, the Sub-Committee has delegated authority to:

- *Increase or decrease the allocation to equities, bonds or property*
- *Increase or decrease the amounts / proportions of assets in manager mandates*

- ***Increase or decrease the level of currency hedging in place***

Dates and Place of Meetings

The Council shall fix the day of the meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they think fit. The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach the funding of its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement was formally approved by the Pensions Committee on 12th March 2008. The Funding Strategy Statement (FSS) is published and has been issued to interested parties. The FSS is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding liabilities of the Pension Fund and copies are available from the Financial Planning Section, ***Central Services Directorate*** or on the Council's website.

The department for Community and Local Government (CLG) 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.

It is in this context that the FSS has been compiled and sets out in detail the Fund's approach to meeting its individual funding requirements. The FSS is reviewed in detail at least every three years, with the next full review due to be completed by ***31st March 2014***.

STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund. The Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. Under Regulation 9A (3A) of the LGPS (Management and Investment of Funds) Regulations 1998 the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. Compliance with these principles is set out in detail in the Appendix to the Statement of Investment Principles (SOIP) and the Fund is fully compliant with 5 out of the 10 principles. Work is in progress with the intention of being compliant with the remaining 5 and the reasons for not being fully compliant are set out in the SOIP. The SOIP was formally reviewed by the Pensions Committee and approved for publication in September 2007 and is reviewed annually or when significant changes occur that require incorporation in the document.

SCHEME OF DELEGATION

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the ***Chief Finance Officer*** in the case of the Pension Fund. The ***Chief Finance Officer*** is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or ***Chief Finance Officer*** in certain circumstances. The ***Central Services Directorate*** has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the ***Chief Finance Officer*** and the Financial Planning Manager. The scheme of delegation is reviewed approximately every six months by the Council.

STANDING ORDERS

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for this. In Hillingdon the responsible officer is the ***Chief Finance Officer*** under the terms of Standing Order 76. Guidance on general financial procedures outline the regulatory framework for financial administration within the Council setting out the duties of the ***Chief Finance Officer*** and Chief Officers and identifying the financial decisions which require Executive or Council approval. The ***Chief Finance Officer*** Services is responsible for ensuring that the Council's financial affairs are administered in a proper manner, in accordance with all statutory obligations, and in compliance with all professional codes of practice. In particular he is responsible for making arrangements for the investment of Council monies, the security of any stock or share certificate or similar documents and the realisation of any investments.

The London Borough of Hillingdon Pension Fund - Funding Strategy Statement

1 Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Hillingdon Pension Fund (“the Fund”), which is administered by London Borough of Hillingdon (“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 and is effective from ***September 2012***.

1.1 Regulatory Framework

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions, 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.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
    - FSS guidance produced by CIPFA
    - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Review of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact:-

Nancy le Roux (Senior Finance Manager – Corporate Finance) – nleroux@hillingdon.gov.uk

Ken Chisholm (Corporate Pensions Manager) - KChisholm@Hillingdon.gov.uK

2 Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) 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. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business and to the Fund, in view of the employer's strength of covenant, where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions by implementing a stabilisation mechanism, reviewable after a 3 year period, which restricts the movement in employer contributions, where the Administering Authority considers it reasonable to do so;
- to use reasonable measures, such as obtaining bonds and guarantees from employers, to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3 Solvency issues and target funding levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit, a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 25 years.

[1] See Regulation 36(5) of LGPS (Administration) Regulations 2008

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which individual employers are actually required to pay. The types of "peculiar" factors which are considered are discussed in Section 3.7.

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

For some employers it may be agreed to pool contributions, see Section 3.7.9. Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. Please note, the contribution rate for London Borough of Hillingdon incorporates an additional 1% to cover early retirement strain costs.

For other Fund employers, any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision). Instalments can be paid up to a maximum of 3 years after the decision where the Administering Authority considers this appropriate.

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required under Regulation 36(1) of The Local Government Pension Scheme (Administration) Regulations 2008 to report on the "solvency" of the whole fund at least every three years,

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a "funding level".

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. Please refer to paragraph 3.9 (admission bodies ceasing) for the treatment of departing employers. The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

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 within the next 5 to 10 years or lose its last active member within that timeframe,

[2] See Regulation 36(7) of LGPS (Administration) Regulations 2008

The Administering Authority may vary the discount rate used to set the employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (eg using 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 when a cessation valuation is carried out.

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

3.3 Ongoing Funding Basis

a) Life Expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach, allows for people living around 0.75 years longer per decade. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

b) Investment Return

The key financial assumption is the anticipated return on the Fund’s investments. The investment return assumption makes allowance for anticipated returns from the Fund’s assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers’ contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund’s investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

c) Salary Growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next three years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11,2011/12 and 2012/13. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

d) Pension Increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010. At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

e) General

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation. Demographic assumptions vary by member characteristics and so reflect the different profiles of the employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Asset Share Calculations for Individual Employers

Adjustments to individual employer contribution rates are applied through both the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

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

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

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

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

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation").
- the use of extended deficit recovery periods.
- the phasing in of contribution increases / decreases.
- the pooling of contributions amongst employers with similar characteristics.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit the London Borough of Hillingdon's contribution rate changes to 1% of employer contributions per annum from 1 April 2011 to 31 March 2014, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

Heathrow Travel Care has been pooled with the London Borough of Hillingdon and will pay the same contribution rate over the period from 1 April 2011 to 31 March 2014, without the additional 1% to cover early retirement costs. The stabilisation approach for other specific Fund employers is set out below. To aid affordability, stable employers with no tax raising powers are us to use deficit recovery periods as follows:

Uxbridge College – 25 years

Hillingdon and Ealing Citizens Advice – 25 years

Stockley Academy – 20 years

Harefield Academy – 20 years

All new Academies – 20 years

The contribution rate increases are to be phased in over the three year period from 1 April 2011 to 31 March 2014 for Hillingdon and Ealing Citizens Advice, Uxbridge College and Harefield Academy. Stockley Academy will have no increase to their contribution rate from 1 April 2011 to 31 March 2014 and will pay the same rate as the year ending 31 March 2011.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore 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.

The Fund currently has a stable net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 25 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers and Resolution bodies	25 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 25 years
Academies	20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Deficit Recovery Periods

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

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

3.7.5 Surplus Spreading Periods

As part of the overall Funding Strategy it was agreed to adopt a ‘stabilisation mechanism’ that limits increases and reductions in contribution rates for public sector bodies: see 4.1 below. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

Any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions **may** be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions

3.7.6 Phasing in of Contribution Rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be entitled to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

3.7.7 Phasing in of Contribution Reductions

Any contribution reductions will be put in place with immediate effect for employers not subject to stabilisation.

3.7.8 The Effect of Opting for Longer Spreading or Phasing-In

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

3.7.9 Pooled Contributions

The Administering Authority may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

3.8 Regular Reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by 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 Administrating Authority.

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

3.9 Admission Bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement (notwithstanding the provisions of the agreement):

- Last active member ceasing participation in the LGPS;
- 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 appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions applying at the end of the contract would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers.

It will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. In order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis” with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

As an alternative to (b) above, 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 or guarantee to be held against any deficit, and would carry out the cessation valuation on an ongoing valuation basis: deficit recovery payments would be derived from this cessation amount. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority’s contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

3.10 Early Retirement Costs

3.10.1 Non Ill-Health Retirements

The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members’ benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer’s consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

The London Borough of Hillingdon's contribution rates, as shown in Annex A, incorporate an additional 1% to cover early retirement strain costs. Other Fund employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. Depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years.

3.10.2 Ill-Health Monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.10.3 Ill-Health Insurance

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

the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;

there is no need for monitoring of allowances.

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

3.11 New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond 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 employer's contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields
- allowance for unpaid contributions

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis. This is included within the Fund's risk register.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but the Fund has a policy to formally review the asset allocation, following the completion of the triennial valuation of the Fund, or perhaps more frequently to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 79% of the total Fund assets.

The investment strategy of lowest default or volatility risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on fixed interest gilts. This resulted in a return on the Fund's assets of 6.1% p.a. to be adopted for the 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

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

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted.

5 Key risks and controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place including a Fund specific risk register. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

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

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations subject to market experience*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices*

Risk	Summary of Control Mechanisms
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.* *This could be supplemented with an analysis of absolute returns against those under-pinning the valuation.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.Mitigate impact through deficit spreading, phasing in of contribution rises and possible pooling.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*
A company admitted to the Fund as an admission body may become financially unviable	*A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this is reviewed regularly to ensure it provides adequate cover for the financial risks involved.*
Ill-health retirements significantly more than anticipated	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.*
Reductions in payroll causing insufficient deficit recovery payments	*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:* *For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increase).* *For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*
Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification, budget changes for higher earners and the Hutton Review of public sector pensions.	*It considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact*

Risk	Summary of Control Mechanisms
	of such changes. *The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.*

5.5 Governance

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). Administering Authority not advised of an employer closing to new entrants.	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* *Vetting prospective employers before admission.* *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of*

	early retirements on redundancy if the employer failed. *Reviewing bond or guarantor arrangements at regular intervals.* *Reviewing contributions if thought appropriate.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are as follows:

Employer	**2011/12**	**2012/13**	**2013/14**
London Borough of Hillingdon	18.1%	20.1%	21.1%
MITIE	21.0%	21.0%	21.0%
Uxbridge College	14.2%	15.5%	16.8%
Genuine Dining Ltd	21.0%	21.0%	21.0%
Hillingdon & Ealing Citizens Advice	15.5%	16.6%	17.6%
Greenwich Leisure Ltd	16.8%	16.8%	16.8%
Heathrow Travel Care	18.1%	19.1%	20.1%
Stockley Academy	18.5%	18.5%	18.5%
Harefield Academy	13.3%	13.7%	14.0%
London Housing Consortium	15.6%	16.35%	17.1%
Look Ahead Housing & Care	23.0%	23.0%	23.0%
Academies			
Guru Nanak Sikh VA School	***16.6%***	***16.6%***	***16.6%***
Haydon School	***16.4%***	***16.4%***	***16.4%***
Swakeleys School for Girls	***17.8%***	***17.8%***	***17.8%***
Queensmead School	***20.0%***	***20.0%***	***20.0%***
Uxbridge High School	***19.8%***	***19.8%***	***19.8%***
The Rosedale Hewens Academy	***21.5%***	***21.5%***	***21.5%***
Bishop Ramsy CofE VA Secondary School	***20.7%***	***20.7%***	***20.7%***
Bishopshalt School Academy	***25.1%***	***25.1%***	***25.1%***
Vyners School	***27.2%***	***27.2%***	***27.2%***
The Willows School	***21.6%***	***21.6%***	***21.6%***
Barnhill Community High School	***19.8%***	***19.8%***	***19.8%***
Northwood School	***25.1%***	***25.1%***	***25.1%***
The Douay Martyrs Catholic School	***18.1%***	***18.1%***	***18.1%***

For all employers that are in deficit, the deficit recovery period is 25 years and the increase in their contribution rate is being phased in over 3 years. For all other employers the future service rate is being paid. The London Borough of Hillingdon rate includes the additional 1% to cover the costs of early retirements.

Annex B – Responsibilities of the key parties

The **Administering Authority should**:

- collect, account and reconcile employer and employee contributions from the employer bodies;
- invest monies not required for the immediate payment of benefits, transfers and administration costs in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The **Individual Employer should**:

- deduct contributions from employees' pay correctly.
- pay all contributions (employees and employers), including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework and inform the Administering Authority of their individual policies on discretions;
- make additional contributions in accordance with agreed arrangements, for example, augmentation of scheme benefits, early retirement strain;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- engage with the Administering Authority in all required consultation processes; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

The **Fund Actuary should**:

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

The **Pensions Committee** should:

- carry out statutory functions relating to local government pensions under regulations made under Sections 7, 12 and 24 of the Superannuation Act 1972. Broadly this enables them to oversee the general framework within which the Fund is managed;

- monitor investment and administration performance;
- carry out regular reviews of investments and investment strategy;
- determine and keep under constant review, an overall asset allocation policy for the Fund, including appointment and termination of fund managers;
- consider appropriate professional advice on all matters with a material impact on the Fund;
- approve significant internal decisions and documents for the Fund including the valuation, Annual Report and Accounts and the FSS; and
- determine and keep under constant review, all policies and strategies of the Fund.