MEETING
PENSION FUND COMMITTEE
DATE AND TIME
MONDAY 9TH SEPTEMBER, 2019
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
8.	THE PENSION REGULATOR - IMPROVEMENT NOTICE	3 - 88
11.	ANNUAL PERFORMANCE REPORT	89 - 126
12.	QUARTERLY PERFORMANCE REPORT	127 - 168

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AGENDA ITEM 8

Pension Fund Committee

9 September 2019

Title	**TPR Improvement Notice**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – LB Barnet TPR response with appendices A, B, C and D.
Officer Contact Details	Nigel Keogh, Interim Pensions Manager Nigel.Keogh@barnet.gov.uk 07505074979

Summary

Further to the Improvement Notice issued by The Pensions Regulator (TPR) on 25 July 2019 to London Borough of Barnet to address weaknesses in the processes and controls within the administration of the Barnet Pension Fund. This paper discusses the areas of improvement and actions taken to respond to the Notice.

Recommendations

The Pension Fund Committee is asked to note the content of the response and the actions taken to comply with the Notice and the verbal update from officers.

1. WHY THIS REPORT IS NEEDED

1.1 On 25 July 2019, TPR issued LBB with an Improvement Notice, which stipulated improvements in three main areas by the 31 August 2019.

1.2 The Council did not appeal against the issue of the Notice.

Required Improvements

1.3 The steps required by TPR to comply with the draft Improvement Notice are set out in appendix 1. These are:

(1) The Scheme Manager must by **31 August 2019** have implemented monthly monitoring of contributions and be able to demonstrate that an analytical review is being undertaken in line with the actions agreed in the March 2019 Internal Audit Report carried out by the Fund (the Report). **By this date** the Scheme Manager must have demonstrated to TPR that it has implemented a series of checks on the data received in End of Year Certificates, in line with the agreed action in the March 2019 Internal Audit Report, and that the checks have been carried out. These actions relate to parts 1 b and 1 d of the Report (appendix 2).

(2) The Scheme Manager must by **31 August 2019** take all steps necessary to ensure it has completed the first two phases of the Conditional Data Cleanse Plan it provided to TPR on 4 January 2019.

(3) The Scheme Manager must by **31 August 2019** have taken all steps necessary to implement and operate adequate internal controls to provide accurate annual benefit statements for financial year 2018/19. This will be evidenced by the Scheme Manager demonstrating that a process is in place to test the quality of calculations used to populate annual benefit statements; that the process was utilised; and that corrections were made where calculation errors were identified. This also relates to action 6b of the March 2019 Report.

Action Plan

1.4 Since the LBB received the draft Warning Notice of an Improvement Notice being issued on 16 May 2019, the required actions set out by TPR have been the subject of discussions, planning and action by and between the Council and Capita. Council officers have been meeting with the Capita administration (including on site at Darlington) to work through the various action plans with additional regular meetings at senior management level.

1.5 The work undertaken so far and the outcomes achieved are summarised below and set out in more detail in the attached update letter (and associated appendices) to TPR, and we are hopeful that on receiving the letter, that TPR will recognise that genuine and sustained efforts are being made to improve the service.

1.6 With regard to 1.3(1) above, an enhanced contribution monitoring process is now in place with detailed returns to Capita from scheme employers being received on a monthly basis. These returns reflect the following;

- Confirmation of outstanding contributions by exception (by Employer for current and previous months)
- Late paying Employers where contributions have been received but not by due date
- Outstanding Contribution Breakdown slips
- Monthly contribution materiality and variance analysis which includes individual member volumes and Employer Pensionable Pay data

All employers are now compliant with the first two bullet points and as at the end of the July reporting period, 95% of employers covering 96% of contributing members were fully-compliant. Capita and Barnet officers are continuing to work with the remaining employers to ensure 100% compliance.

1.7 With regard to 1.3(2) above, as at 22 August 2019, all of the amber and the majority of the red rated errors that emerged from the conditional data check performed in March 2018 (previously reported to TPR in January 2019) have been investigated and subsequently corrected or otherwise resolved. Work is continuing to resolve the remaining errors. In addition, in response to recommendation 1e in the March 2019 Internal Audit Report (Pensions Administration follow-up review) the member data set from the End of Year Returns as at 31 March 2019 has been subject to extensive scrutiny prior to its submission to the scheme actuary for the purposes of the 2019 triennial valuation to ensure that all data fields were completed in full by employers and missing data promptly chased and gathered. The final, complete data upload was submitted on 6 August 2019, and revealed 38 critical errors, which have since been addressed.

1.8 With regard to 1.3(3) above, the production of the 2019 Annual Benefit Statements has been monitored against a detailed project plan which allowed for increased sample checking of the accuracy of the statements, and enhanced, detailed sample testing undertaken by LGPS technical specialists. The outcome of the above checking confirmed that no systemic errors in the production process were found, other than those isolated errors identified as a consequence of the checking process, and which have now been corrected. 930 annual benefit statements in respect of deferred members (8.6% of the deferred member population) whose cases were in progress at the time the ABS data was extracted were withdrawn. Each of these members will receive a statement as their cases are resolved – this process will be completed by the end of December. With the exception of the above, benefit statements will be despatched to all members due to receive a statement by the statutory deadline.

1.9 Two further matters of note were included in the letter to The Pensions Regulator. The first of these concerned the discovery of a population of 1880 deferred members whose Normal Pension Age (NPA) was incorrectly held on

the administration system, as they were entitled to a retirement age earlier than NPA under the "Rule of 25". This had come to light following queries from affected members. The records for the affected members were corrected in April 2019. Ongoing queries from affected members are being dealt with on an individual basis and all affected members will be contacted in the next few months.

1.10 The other matter concerned the service remediation plan which has now been put into place regarding the administration service provided by Capita. The plan covers a wide range of initiatives, including:

- A backlog reduction plan aimed at eliminating the overdue actionable casework by the end of December 2019, and a plan to obtain the necessary data to bring currently non-actionable cases into a workable position
- Annual independent controls assurance reviews to be undertaken to AAF01/06 standards
- Enhanced staff training, awareness and education regarding the Barnet Pension Fund, including incentivisation to undertake professional qualifications
- Improved data integrity delivered through monthly employer data capture and reconciliation
- Enhanced monthly performance reporting
- Improved resource planning and caseload management
- Improved back office and front office co-ordination on call-handling

Barnet officers are monitoring progress against the plan on a fortnightly basis, with weekly monitoring of the backlog reduction also in place.

1.11 Irrespective of the above plan, it was noted at the last meeting that the Pension Fund Committee requests that the Policy and Resources Committee are provided with a detailed options paper on alternative delivery options at the next meeting of that committee. Such a paper is being drafted in response to the instruction to the Director of Finance to put appropriate measures in place to enable alternative service provision arrangements to be made for Pensions Administration, should the need arise, with a view to bringing a further report to Policy and Resources Committee in due course (https://barnet.moderngov.co.uk/documents/s52969/Review%20of%20Capita%20Contracts.pdf refers). The timing of the delivery of this paper will be contingent upon whether The Pensions Regulator believes that sufficient progress has been made with the regard to the matters set out in the Improvement Notice, and whether the service improves as Capita deliver on the commitments set out in the remediation plan.

1.12 Officers will be communicating further with TPR during the autumn to report on the outcome of the Annual Benefit Statement exercise, the scheme actuary's assessment of the data for the 2019 valuation, and progress on the reduction of the casework backlog and issuing of the remaining Annual Benefit Statements.

2. REASONS FOR RECOMMENDATIONS

2.1 There is no action required of the Committee.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1 Not applicable.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by assisting in maintaining the integrity of the pension Fund by monitoring the administration and compliance of the Fund.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The work identified above is being done within existing resources.

5.3 Social Value

5.3.1 Not applicable in the context of this report.

5.4 Legal and Constitutional References

5.4.1 The Local Government Pension Scheme Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is the London Borough of Barnet.

5.4.2 The Council's Constitution – Article 7 – includes within it the responsibilities of the Pension Fund Committee. It ise therefore considered appropriate for the Pension Fund Committee to receive this report.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

5.6 Equalities and Diversity

Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex, sexual orientation and marriage and civil partnership.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Where relevant, consultation and engagement is discussed in the paper.

5.9 Insight

5.9.1 Not applicable in the context of this report.

6 BACKGROUND PAPERS

6.1 https://barnet.moderngov.co.uk/documents/s54728/Regulatory%20Intervention.pdf

Mr Michael Burton
Specialist
Supervision (Relationships)
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Your reference: C98061965

29 August 2019

Dear Michael

Local Government Pension Scheme (LGPS) -London Borough of Barnet Superannuation Fund PSR 10123044 (the Fund)

I am writing further to my letter to you dated 31 May 2019 and with reference to the Improvement Notice enclosed with your letter of 25 July 2019.

I am pleased to report that we have made substantial progress in addressing the issues raised in the Improvement Notice and I am writing to you to advise you of the approach we have taken, the progress we have made to date and to outline the further steps we are taking to continue to address these issues, and more generally improve the service to our pension fund members going forward.

I will include the wording contained in the Improvement Notice for each step in turn, followed by my commentary:

Step 1a

"The Scheme Manager must by **31 August 2019** have implemented monthly monitoring of contributions and be able to demonstrate that an analytical review is being undertaken in line with the actions agreed in the March 2019 Internal Audit Report carried out by the Fund (the Report)."

In response to recommendation 1d in the March 2019 Internal Audit Report (Pensions Administration follow-up review), an enhanced contribution monitoring process is now in place with detailed returns to Capita from scheme employers being received on a monthly basis. These returns reflect the following;

- Confirmation of outstanding contributions by exception (by Employer for current and previous months)
- Late paying Employers where contributions have been received but not by due date
- Outstanding Contribution Breakdown slips
- Monthly contribution materiality and variance analysis which includes individual member volumes and Employer Pensionable Pay data

All employers are now compliant with the first two bullet points and as at the end of the July reporting period, 95% of employers covering 96% of contributing members were fully-compliant. Capita and Barnet officers are continuing to work with the remaining employers to ensure 100% compliance.

By way of evidence (Appendix A), a copy of the contribution monitoring report in respect of the month of July is attached, along with a copy of the new employer reporting template and the revised process notes used at Capita.

Step 1b

"By this date (31 August 2019) the Scheme Manager must have demonstrated to TPR that it has implemented a series of checks on the data received in End of Year Certificates, in line with the agreed action in the March 2019 Internal Audit Report, and that the checks have been carried out."

With specific reference to the March 2019 Internal Audit Report, to which Step 1b above refers, the actions relating to the data checks conducted on End of Year Returns are detailed in Step 2.

Step 2

"The Scheme Manager must by **31 August 2019** take all steps necessary to ensure it has completed the first two phases of the Conditional Data Cleanse Plan it provided to TPR on 4 January 2019."

Please find at Appendix B a status update on the Conditional Data Cleanse Plan first provided to TPR on 4 January 2019. As you can see from Appendix B, as at 22 August 2019, all of the amber and the majority of the red rated errors that emerged from the conditional data check performed in March 2018 have been investigated and subsequently corrected or otherwise resolved. Work is continuing to resolve the remaining errors.

In addition, earlier this year an issue was identified with a population of 1880 deferred members whose Normal Pension Age (NPA) was incorrectly held on the administration system, as they were entitled to a retirement age earlier than NPA under the "Rule of 25". This had come to light following queries from affected members. The records for the affected members were corrected in April 2019. Ongoing queries from affected members are being dealt with on an individual basis and all affected members will be contacted in the next few months. We will write to you with a detailed plan which explains how we will be communicating with impacted members as well as how we plan to make good any member detriment.

Corrections to individual members' CARE records have also been made as a result of the enhanced testing of deferred member records by the Capita Technical team, together with some adjustment to mapping rules at member level to ensure accurate mapping of data fields to the Annual Benefit Statement (ABS) template (see report at Appendix C). These activities have further enhanced the quality of the data and the integrity of ABS production.

Furthermore, in response to recommendation 1e in the March 2019 Internal Audit Report (Pensions Administration follow-up review) the member data set from the End of Year Returns as at 31 March 2019 has been subject to extensive scrutiny prior to its submission to the scheme actuary for the purposes of the 2019 triennial valuation to ensure that all data fields were completed in full by employers and missing data promptly chased and gathered.

As at the time of writing, we are still chasing one End of Year Return from 1 employer, affecting 2 members.

The final, complete data upload was submitted on 6 August 2019, and revealed 38 critical errors, which have since been addressed.

The actuary is now engaging in further data integrity work, including reconciling fund financial records to membership data, and once that work is complete, we will report the outcome to you.

In our continued efforts to improve the quality of scheme data, Capita have produced a wider service remediation plan (Appendix D), which incorporates a further conditional data check (which is planned to be run by the end of September as a precursor to the submission of conditional data scores as part of the annual scheme return in October).

Step 3

"The Scheme Manager must by **31 August 2019** have taken all steps necessary to implement and operate adequate internal controls to provide accurate annual benefit statements for financial year 2018/19. This will be evidenced by the Scheme Manager demonstrating that a process is in place to test the quality of calculations used to populate annual benefit statements; that the process was utilised; and that corrections were made where calculation errors were identified. This also relates to action 6b of the March 2019 Report."

As set out in our letter of 31 May 2019, the production of the 2019 Annual Benefit Statements has been monitored against a detailed project plan which allowed for increased sample checking of the accuracy of the statements, and enhanced, detailed sample testing undertaken by LGPS technical specialists.

The outcome of the above checking is set out in detail in Appendix C, but in summary we can confirm that no systemic errors in the production process were found, other than those identified above and in Appendix C. All of these errors as noted above have now been corrected.

930 statements in respect of deferred members (8.6% of the deferred member population) whose cases were in progress at the time the ABS data was extracted were withdrawn. Each of these members will receive a statement as their cases are resolved – this process will be completed by the end of December. We will keep you informed of progress.

In addition, there are 272 members held with deferred status who have passed their normal pension age and are not entitled to defer their pension benefits beyond their normal pension age. These members did not therefore receive an annual benefit statement but will be contacted and invited to take their benefits.

These members are included in the total of 1880 members referred to above, whose Normal Pension Age had not been recorded correctly on the administration system under the "Rule of 25".

We can confirm that, with the exception of the above, benefit statements will be despatched to all members due to receive a statement by the statutory deadline.

As mentioned in our letter of 31 May 2019 once the Statements have been issued, any queries received from members will be recorded, investigated and the outcomes of this process communicated to you in the autumn.

Further improvements

Over the last few months, we have been working with Capita to implement a remediation plan covering not only the matters referred to above but also longer-term service improvements including:

- A revised process for the handling of employer admissions, bond renewals and cessation valuations (now implemented)
- A backlog reduction plan aimed at eliminating the overdue actionable casework by the end of December 2019, and we will provide you with a progress update as at the end of October 2019, and set out our plan to obtain the necessary data to bring currently non-actionable cases into a workable position
- Annual independent controls assurance reviews to be undertaken to AAF01/06 standards
- Enhanced staff training, awareness and education regarding the Barnet Pension Fund, including incentivisation to undertake professional qualifications
- Improved data integrity delivered through monthly employer data capture and reconciliation
- Enhanced monthly performance reporting
- Improved resource planning and caseload management
- Improved back office and front office co-ordination on call-handling

A copy of the plan in full is at Appendix D.

As noted in our letter of 31 May 2019, we recognise that our monitoring of the outsourced arrangements with Capita and the discharge of our wider responsibilities as Scheme Manager have been poorly resourced in previous years. In addition to the interim Pension Manager appointed in May 2019, we have supplemented this appointment with an interim Pensions Operations Manager with over 20 years' experience in the Local Government Pension Scheme, whose primary focus will be on working with Capita to improve operational processes. We are also now in the final stages of appointing a permanent Pensions Manager. Capita have also recognised the need to further strengthen their oversight and control and have appointed a dedicated Senior Operations Manager, with significant pensions experience, to help drive remediation activities, process efficiencies and ultimately delivery of a more positive member experience.

Other Matters

This section has been redacted. It relates to an incident that is subject to ongoing legal proceedings and will be reported to the Committee, together with the actions taken, as soon as these proceedings have been concluded.

Once again, please be assured that we fully recognise the shortcomings you have highlighted in the Improvement Notice, and I trust that the progress to date outlined above demonstrates that we, and Capita, are fully committed to resolving those issues, and more generally improving the service to our members across the board through the remediation plan.

Yours etc

Enclosures

Appendix A

July contributions monitoring report
Contributions monitoring process notes
Monthly employer return template

Appendix B

Conditional Data Cleanse Plan Status Update

Appendix C

ABS checking report

Appendix D

Remediation Plan

Appendix E

Incident controls review and recommendations report *(withheld until legal proceedings are concluded*)

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LBB – Contributions Monitoring

The payment of pension contributions with an accompanying payment schedule is due to CEB on the 22nd of each month. When the 22nd falls on a weekend they are due on the working day before the 22nd. The following document provides the process for late and/or incorrect payment information being submitted to CEB.

Outstanding Contributions

Scenario
An employer who has not paid their contributions for the payroll month in question by the agreed deadline.

CEB Process

1. Non-payment 5 working days after due date. – Reminder 1 issued to finance contact.
2. Non-payment following reminder 1 (10 working days after due date). – Reminder 2 issued to finance contact.
3. Non-payment following reminder 2 (15 working days after due date). - Reminder 3 issued to head of finance or equivalent
4. Unresolved after reminder 3 - The case will be included in LBB Contributions Report, **tab LBB-01** and will be included as a potential reportable item on the **Report Summary Index** tab. The report will be shared with the client to be considered for TPR reporting and/or any further action.

Outstanding Contribution Breakdown Forms

Scenario
An employer who has not submitted a valid contribution break down form by the agreed deadline.

CEB Process

1. Non submission 5 working days after due date. - Reminder 1 issued to finance contact.
2. Non submission following reminder 1 (10 working days after due date). - Reminder 2 issued to finance contact.
3. Non submission following reminder 2 (15 working days after due date). - Reminder 3 issued to head of finance or equivalent.
4. Unresolved after reminder 3 - The case will be included in LBB Contributions Report, tab **LBB-04** and will be included as a potential reportable item on the **Report Summary Index** tab. The report will be share with the client to be considered for TPR reporting and/or further action.

Submission of Incorrect Breakdown Form or Incorrect/missing information supplied on correct form.

Scenario
An employer who has submitted an incorrect form or who has submitted incorrect/missing information.

CEB Process

1. Non submission of correct form / information 5 working days after due date. - Reminder 1 issued to finance contact.

2. Non submission of correct form / information following reminder 1 (10 working days after due date). - Reminder 2 issued to finance contact
3. Non submission of correct form / information following reminder 2 (15 working days after due date). Reminder 3 issued to finance contact-
4. Unresolved after reminder 3 - The case will be included in LBB Contributions Report, tab **LBB-03** and will be included as a potential reportable item on the **Report Summary Index** tab. The report will be share with the client to be considered for TPR reporting and/or further action.

Contributions Tolerance Check

Scenario

A variance check is in place which compares the current month contributions against the average of the three prior months received and provides a % difference. If this variance falls outside +/-15% then CEB will contact the establishment for clarification of the reason for the latest submission falling outside the +/-15% tolerance level.

CEB Process

1. Non submission 5 working days after due date. - Reminder 1 issued to finance contact.
2. Non submission following reminder 1 (10 working days after due date). - Reminder 2 issued to finance contact - Reminder 2 issued to finance contact-
3. Non submission following reminder 2 (15 working days after due date). - Reminder 3 issued to head of finance or equivalent.
4. Unresolved after reminder 3 - The case will be included in LBB Contributions Report, tab **LBB-05** and will be included as a potential reportable item on the **Report Summary Index** tab. The report will be share with the client to be considered for TPR reporting and/or further action.

London Borough of Barnet Pension Fund

Conditional Data Cleanse Update - August 2019

				RAG status and priority assigned	Comments	Owner
Personal Details	**Personal Details**	Fail(s) from conditional data run - March 2018	Status as at 22 August 2019	N/A		Mark Richardson
	Date pensionable service started populated					
	Deferred failure count	3	0	N/A	These relate to D/X pension credit members who do not hold service data on their records.	N/A
	Pensioner failure count	552	552	4	Does not impact on member benefits or valuation - will be reviewed as part of the 2019 common/conditional data run September 2019.	Mark Richardson
	Marriage indicator field is populated					
	Pensioner failure count	6130	6130	4	Missing marriage data not required until death of member and will be requested at that point.	Mark Richardson
	No mismatch between member's title and gender					
	Active failure count	20	0	1	Completed	Mark Richardson
	Deferred failure count	11	0	1	Completed	Mark Richardson
	Member's date of birth populated					
	Active failure count	1	0	1	Completed	N/A
	Spouse's date of birth is populated					
	Pensioner failure count	357	357	4	Missing spouse DOB data not required until death of member and will be requested at that point.	Mark Richardson
	Spouse's name contains more than one character					
	Pensioner failure count	218	218	4	Missing spouse DOB data not required until death of member and will be requested at that point.	Mark Richardson
	Member's date of birth is held in correct format					
	Active failure count	1	0	N/A	Corrected - no further action required	N/A
Preserved Benefits	**Preserved Benefits**					
	Total original deferred benefit populated					
	Deferred failure count	72	0	1	Completed	Mark Richardson
	Date of leaving for non- actives has been populated					
	Deferred failure count	6	0	3	Completed	Mark Richardson
	Pensioner failure count	2	0	3	Completed	Mark Richardson
	Current total deferred benefit exists					
	Deferred failure count	72	0	1	Completed	Mark Richardson
	Current total deferred benefit greater than zero					
	Deferred failure count	1	0	N/A	Corrected - no further action required	N/A
Pension Benefits	**Pension Benefits**					
	Total current pension populated					
	Pensioner failure count	103	0	1	Completed	Mark Richardson
	Total current spouse's pension populated					
	Pensioner failure count	100	0	1	Completed	Mark Richardson
	Total spouse's pension is greater than zero					
	Pensioner failure count	6408	0	2	Spouses pension data is not held on the member record. Spouses pensions are calcuated for the purposes of ABS production and when benefits are put into payment.	Mark Richardson
	Retired members have a total current pension greater than zero					
	Pensioner failure count	4	0	1	Q1 2019	Mark Richardson
CARE Benefits	**CARE Benefits**					
	Accrued CARE benefit amount populated					
	Active failure count	2777	135	1	Escalating requests for outstanding info with Employers	Mark Richardson
	Deferred failure count	3345	0	1	Completed	Mark Richardson
	Accrued CARE benefit amount held in expected format					
	Active failure count	1388	0	1	Completed	Mark Richardson
	Deferred failure count	2020	0	1	Completed	Mark Richardson
	Accrued CARE benefit amount is greater than zero					
	Deferred failure count	15	0	1	Completed	Mark Richardson
GMP Rectification	**SUBJECT TO SEPARATE SPIR / PROJECT**					
Salary Tests	**Salary Tests**					
	Salary greater than £1.00					
	Active failure count	7019	26	1	Escalating requests for outstanding info with Employers	Mark Richardson
	Deferred failure count	3546	0	3	Test results in error as data is stored in another field	Mark Richardson
	Salary complete for the last 12 months before date of leaving					
	Deferred failure count	2260	0	4	Test results in error as data is stored in another field	Mark Richardson
Contributions Tests	**Contributions Tests**					
	Contributions for each year in contributory scheme					
	Active failure count	8641	0	2	Contribution data on member record not required for scheme valuation or ABS reporting.	Mark Richardson
	Deferred failure count	3997	0	3	Benefits have already been calculated - information not required.	Mark Richardson
	Contribution amount exists for contributory scheme					
	Active failure count	2176	0	2	Contribution data on member record not required for scheme valuation or ABS reporting.	Mark Richardson
	Deferred failure count	934	0	3	Benefits have already been calculated - information not required.	Mark Richardson
Transfer in Tests	**Transfer in Tests**					
	Transfer In benefits are populated					
	Active failure count	1	0	2	Completed	Mark Richardson
A-Day tests	**A-Day Tests**					
	Crystallisation event LTA% is greater than zero					
	Pensioner failure count	7	0	3	Cleared August 2019	Mark Richardson
	Crystallisation event value is greater than zero					
	Pensioner failure count	6	0	3	Cleared August 2019	Mark Richardson
	Crystallisation event date exists					
	Pensioner failure count	4	0	3	Cleared August 2019	Mark Richardson
	Crystallisation event date held in expected format					
	Pensioner failure count	1	0	3	Cleared August 2019	Mark Richardson
	Crystallisation event LTA% held in expected format					
	Pensioner failure count	1	0	3	Cleared August 2019	Mark Richardson
	Crystallisation event date is after 05/04/2006					
	Pensioner failure count	2	0	3	Cleared August 2019	Mark Richardson

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BARNET LONDON BOROUGH

Barnet Deferred Benefit Statement Testing Schedule

Purpose of tests

The enhanced testing, which is detailed in this testing schedule, was performed by Capita's technical team, is to ensure:

a) any additional manual activity to support the production of the annual benefits statements has been carried out correctly; and
b) the data upon which the calculation routines rely on is of sufficient quality as to produce accurate output on the annual benefit statements.

Enhanced testing encompassed three core areas:

1. **Calculation routine tests** – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
2. **Tolerance tests** – were applied to the input data to ensure that the data used in the calculation routines was reasonable
3. **Exception tests** – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 4 sections and the data output to each of these sections was tested

1. Calculation routine tests

Routine tested	Test run	Comments
Pensions Increase	For members with date of leaving before 24/04/2018 full pensions increase has been added to the initial pension and lump sum, where applicable	A range of leaving dates were selected between the earliest leaving date on file and 23/03/2018 and for all cases tested pensions increase was correctly applied
Pensions Increase	For members with date of leaving between 24/04/2018 and 23/03/2019 partial pensions increase and a partial Treasury Order has been added to the initial pension with a partial pensions increase to the lump sum,	A number of leaving dates were selected and for all cases tested pensions increase was correctly applied

	where applicable	
Pensions Increase	For members with date of leaving after 23/03/2019 a full Treasury order has been added to the initial pension	A number of leaving dates were selected and for all cases tested pensions increase was correctly applied
Survivor's pension	Correct % of member's pension used in the calculation of survivor's pension for deferred and deferred pensioner members with the exception of female members who left before 01/04/1988	Sample testing of members who left: • Before 01/04/2008 • Between 01/04/2008 and 31/03/2014 • After 31/03/2014 For all cases sampled after formula correction, the survivor's pension was correctly calculated
Survivor's pension	No survivor's pension output for female members who left before 01/04/1988 or members who have entitlement to a pension credit	Agreed following targeted testing of these groups
% LTA used	Figures populated are equal to 20 times pension plus lump sum divided by £1,055,000 times 100	Agreed
Death grant	Correct multiplier used to determine death grant	Sample testing of members who left: • Before 01/04/2008 • After 31/03/2008 For all cases sampled the correct multiplier was used

2. Tolerance tests run

Input data tested	Test run	Comments
Total pension	Low pensions relate to members with low service and/or low pensionable pay	Agreed
Total pension	High pensions relate to members with long service and/or high pensionable pay	Agreed

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3. Exception tests run

Section 1

Personal Details

Field on Statement	Test Done	Comments
Name	All rows populated with members' title	**Findings** • 100% populated
		Actions taken • N/A
Name	All rows populated with members' initials	**Findings** • 100% populated
		Actions taken • N/A
Name	All rows populated with members' surname	**Findings** • 100% populated
		Actions taken • N/A
Date of Birth	All rows populated with correctly formatted date of birth	**Findings** • Agreed
		Actions taken • N/A
Date of Birth	All dates prior to date joined scheme and age not less than 16 at date of joining	**Findings** • 1 record PEMP ID 41987236 incorrect as NPA 31/03/2019
		Actions taken • Date corrected
Date of Birth	All dates of birth produce an age that is less than 75	**Findings** • Agreed
		Actions taken • N/A

Member reference number	All rows populated with 8 digit reference number	**Findings** • Agreed **Actions taken** • N/A
Date joined scheme in employment	All rows populated with correctly formatted date joined scheme	**Findings** • 6 records not populated 41988819, 41989821, 41991539, 42767261,43085399 & 41992096 **Actions taken** • All D/X records which are pension credit members. Date to be populated with same date as leaving
Date joined scheme in employment	All dates of joining prior to dates of leaving	**Findings** • All correct except the 6 pension credit members detailed above with no date of joining **Actions taken** • N/A
Date left scheme	All rows populated with correctly formatted date of leaving	**Findings** • Agreed **Actions taken** • N/A
Final Salary Membership from date	All dates pre 01/04/2014	**Findings** • All correctly pre 01/04/2014 NB data does not differentiate between 80ths and 60ths but both are final salary service **Actions taken** • No differentiation required as only one line output on ABS so no action to take
Final Salary Membership date to	All dates pre 01/04/2014	**Findings** • All correctly pre 01/04/2014 NB data does not differentiate between 80ths and 60ths but both are final salary service **Actions taken** • No differentiation required as only one line output on ABS so no action to take

CARE scheme date from	All populated dates post 31/03/2014	**Findings** • Agreed **Actions taken** • N/A
CARE scheme date from	All blanks have date of leaving prior to 01/04/2014	**Findings** • Agreed **Actions taken** • N/A
CARE scheme date to	All dates later than CARE scheme date from	**Findings** • Agreed **Actions taken** • N/A
Normal Pension Age	All pre 1 April 1998 leavers populated with 25 year rule date	**Findings** • Agreed **Actions taken** • N/A
Normal Pension Age	All pre 1 April 1998 joiners who left prior to 1 October 2006 populated with 25 year rule date	**Findings** • Agreed **Actions taken** • N/A
Normal Pension Age	All pre 1 April 2014 leavers not covered in rows above populated with age 65	**Findings** • 1 record to amend 42646761 **Actions taken** • Date amended
Normal Pension Age	All post 1 April 2014 leavers populated with age at SPA	**Findings** • Agreed **Actions taken** • N/A

BARNET LONDON BOROUGH

Section 2

Deferred benefits at 8 April 2019

Final Salary benefits

Field on Statement	Test Done	Comments
Annual Pension	Figures populated for all members with date joined scheme before 01/04/2014	**Findings** • Members that failed test 41991681, 41998128, 41998511, 42940743, 43441742
		Actions taken • 41991681 service under 41981406 added as non-pensionable service to ensure a deferred benefit is held. Member was in pensionable employment for less than two years in this employment but in aggregate more than two years so entitled to a deferred but no final salary pension accrued in this post – pensionable service correctly held so no action taken. • 41998128 service under 41997158 added as non-pensionable service to ensure a deferred benefit is held. Member was in pensionable employment for less than two years in this employment but in aggregate more than two years so entitled to a deferred but no final salary pension accrued in this post – pensionable service correctly held so no action taken • 41998511 deferred benefit did not include CARE pay from 01/04/2015 to DOL nor did it include the final salary benefit because the member was hourly paid with no pensionable pay prior to 01/04/2014 or from 01/04/2015 – pension record correct so no action taken • 42940743 employer confirmed that member received no pay for February and March 2014 so no final salary benefits accrued – pension record correct so no action taken • 43441742 first contribution paid was in respect of service from

		1 April 2014 so no final salary benefits accrued – pension record correct so no action taken
Annual Pension	Value of pension agrees with deferred benefits screen	**Findings** • Correct value at 08/04/2019 held in Column AT (mapping document incorrectly references Column AM)
		Actions taken • Mapping instruction revised
Annual Pension	This needs to be the value of the final salary benefits at 08/04/2019 prior to any pension sharing or scheme pays debits	**Findings** • Agreed
		Actions taken • N/A
Additional Pension Bought	Figures populated less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • Report was not merged, now populated
		Final review • Agreed
Pension Sharing Debit	Figures less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • 41965753 is only known deferred member with a pension debit. Pension and lump sum are net of debit so whilst debit is not explicitly shown it is correctly reflected in benefits quoted. Refer to notes below for further commentary – no action taken
Scheme pays debit	Figures less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • 41989809 and 43025041 are the only known deferred members with a Scheme Pays debit. The deferred pension is recorded net of the debit so whilst the debit is not explicitly shown it is correctly reflected in the benefits quoted – no

		action taken
Total Final Salary pension Benefits	Figures populated for all members with date joined scheme between 01/04/2008 and 31/03/2014	**Findings** • Members that failed test 41991681, 41998128, 41998511, 42940743, 43441742
		Actions taken • 41991681 service under 41981406 added as non-pensionable service to ensure a deferred benefit is held. Member was in pensionable employment for less than two years in this employment but in aggregate more than two years so entitled to a deferred but no final salary pension accrued in this post – pensionable service correctly held so no action taken. • 41998128 service under 41997158 added as non-pensionable service to ensure a deferred benefit is held. Member was in pensionable employment for less than two years in this employment but in aggregate more than two years so entitled to a deferred but no final salary pension accrued in this post – pensionable service correctly held so no action taken • 41998511 deferred benefit did not include CARE pay from 01/04/2015 to DOL nor did it include the final salary benefit because the member was hourly paid with no pensionable pay prior to 01/04/2014 or from 01/04/2015 – pension record correct so no action taken • 42940743 employer confirmed that member received no pay for February and March 2014 so no final salary benefits accrued – pension record correct so no action taken • 43441742 first contribution paid was in respect of service from 1 April 2014 so no final salary benefits accrued – pension record correct so no action taken
Automatic lump sum	Figures populated for all members with date joined scheme before 01/04/2008	**Findings** • Members that failed test 41967366, 41989083, 41992864, 41999227 & 41999531

		Actions taken • 41967366 initial lump sum of £26,001.88, which shows on deferred benefit statement (26/07/2010), added to Hartlink deferred benefit record • 41989083 initial lump sum of £907.84, which shows on deferred benefit statement (31/08/2010), added to Hartlink deferred record • 41992864 we believe that this member was incorrectly set up as a deferred member. Refund paid on 04/08/1995 by cheque no. 522777 refer debit note numbered 92829– we do not believe this member is entitled to a deferred benefit. Report to client outlining reasons and actions recommended can be found in main body of the report. • 41999227 initial lump sum of £208.13, which shows on deferred benefit statement (02/07/2010), added to Hartlink deferred record • 41999531 service under 41991001 added as non-pensionable service to ensure a deferred benefit is held. Member was in pensionable employment for less than two years in this employment but in aggregate more than two years so entitled to a deferred but no final salary pension accrued in this post – pensionable service correctly held so no action taken.
Automatic lump sum	No figures populated for all members with no membership before 01/04/2008	**Findings** • Several members with post 08 only membership but they were Councillors so are correct to have automatic lump sums or members that have done Interfunds that brought across membership before 01/04/2008.
		Actions taken • N/A

CARE pension benefits

Field on Statement	Test Done	Comments
Annual Pension	Figures populated for all members with date of leaving scheme after 31/03/2014	**Findings** Members that failed test 41965206, 41983721, 41988486, 41989700, 41989920, 41989962, 41990386, 41990480, 41990621, 41990705, 41997518, 41997603, 41998119, 42767261
		Actions taken • 41965206, 41988486, 41989700, 41989920, 41989962, 41990621, 41990705, 41997518, 41998119 are all councillors so no CARE should be recorded – no action taken • 41990386 left employment 31/03/2016 following unpaid leave which commenced 01/04/2014 so no CARE pension built up – no action taken • 41990480 CARE line added to Hartlink, CARE correctly included in deferred benefit statement • 42767261 is a pension credit member set up 20/05/2014 (debit member left pensionable service 1995) so no CARE pension entitlement – no action taken • 41997603 – member did not pay any pension contributions in April 2014 so no CARE pay should be recorded – no action taken • 41983721 record is correct. Employee went on adoption leave and it had impact on her earnings. Through that financial year she had a lot of deductions and offsets. There were pension refunds, Core (payroll) have used them as an offset to pension from post number 41998324 – no action taken
Annual Pension	No Figures populated for all members with date of leaving scheme prior to 01/04/2014	**Findings** • Agreed
		Actions taken • N/A

Annual Pension	Value of pension agrees with deferred benefits screen	**Findings** • Correct value at 08/04/2019 held in Column BH (mapping document incorrectly references Column AZ)
		Actions taken • Mapping instruction corrected
Additional pension bought	Figures populated less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • Report was not merged, now populated
Pension Sharing Debit	Figures less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • There are no deferred members with service after 31/03/2014 who are subject to a pension debit so there should be no entries found. Refer to notes below for further commentary – no action taken
Scheme pays debit	Figures less than Annual Pension	**Findings** • No figures populated at all – investigation required
		Actions taken • 41989809 and 43025041 are the only known deferred members with a Scheme Pays debit. The deferred pension is recorded net of the debit so whilst the debit is not explicitly shown it is correctly reflected in the benefits quoted – no action taken
Total CARE pension	Figures populated for all members with date of leaving scheme after 31/03/2014	**Findings** • Members that failed test 41965206, 41983721, 41988486, 41989700, 41989920, 41989962, 41990386, 41990480, 41990621, 41990705, 41997518, 41997603, 41998119, 42767261
		Actions taken • 41965206, 41988486, 41989700, 41989920, 41989962,

		41990621, 41990705, 41997518, 41998119 are all councillors so no CARE should be recorded – no action taken • 41990386 left employment 31/03/2016 following unpaid leave which commenced 01/04/2014 so no CARE pension built up – no action taken • 41990480 CARE line added to Hartlink, CARE correctly included in deferred benefit statement • 42767261 is a pension credit member set up 20/05/2014 (debit member left pensionable service 1995) so no CARE pension entitlement – no action taken • 41997603 – member did not pay any pension contributions in April 2014 so no CARE pay should be recorded – no action taken • 41983721 record is correct. Employee went on adoption leave and it had impact on her earnings. Through that financial year she had a lot of deductions and offsets. There were pension refunds, Core (payroll) have used them as an offset to pension from post number 41998324 – no action taken
Total CARE pension	No figures populated for any member with date of leaving scheme prior to 01/04/2014	**Findings** • Agreed
		Actions taken • N/A

Section 3

Total Pension Payable from your NPA

Field on Statement	Test Done	Comments
Total Pension	Figure greater than £0.00 for all members	**Findings** • Agreed
		Actions taken

		• N/A
Total Pension	Agrees with total of Final Salary + CARE benefits (Columns AT & BH	**Findings** • Agreed
		Actions taken N/A
Total Lump Sum	Agrees with automatic lump sum figure in column AX	**Findings** • Agreed
		Actions taken • N/A

Section 4

Benefits payable in the event of death

Field on Statement	Test Done	Comments
Death Grant	All figures greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
Death Grant	All pre 01/04/2008 leavers death grant = 3 times pension	**Findings** • Agreed
		Actions taken • N/A
Death Grant	All post 31/03/2008 leavers death grant = 5 times pension	**Findings** • Agreed
		Actions taken • N/A
Survivors pension	All figures greater than £0.00 unless member is female and left before 01/04/1988	**Findings** • Agreed
		Actions taken

		• N/A
Survivors pension	Figures agreed from random selection testing	**Findings** • Formula to ascertain correct figures is incorrect as for the CARE element it is looking at column AZ which is the CARE figure at date of leaving it needs to be looking at column BH for the values at 08/04/2019
		Actions taken • Formula corrected
		Final review • Agreed
Survivors pension	No figures populated for Pension Credit members	**Findings** • 6 Pension credit members records identified as having figures that need changing to £0.00 41988819, 41989821, 41991539, 42767261, 43085399 & 41992096
		Actions taken • JR to be raised to correct Hartlink record and deferred benefit extract corrected
Survivors pension	No figures populated for female members who left prior to 01/04/1988	**Findings** • 4 members records identified as having figures that need changing to £0.00 41970449, 41970454, 41970459 41970468
		Actions taken • JR to be raised to correct Hartlink record and deferred benefit extract corrected

Notes

1. Pension debit and credit members additional steps taken.
   During testing a lower than expected number of pension credit members and pension debit members were found. In consequence, an audit was run to determine whether the numbers found were reasonable. Specific casetypes are used to record cash equivalent transfer values (CETV) requested as part of

a divorce action and any subsequent pension sharing order (PSO) that is received. A report was run through Hartlink to identify the requests made on these casetypes. The results revealed that since 1 March 2014 seven individuals had made an enquiry in respect of a divorce CETV/PSO. Four of the seven cases identified had progressed to a PSO and all debit members are pensioners except for one member who is still an active member. Given the low number for divorce CETV requests received, a report was run on the casetype used to record CETVs to other pension arrangements and a visual check of the documents stored in these records was carried out by the technical team. Out of the 333 requests identified, 134 requests were for divorce CETVs of which 1 progressed to a pension sharing order (this case was one of the cases already known about). Based on these numbers and experience we are not unduly concerned by the lack of pension debit/credit members in the legacy data. Additionally, the legacy data that was transferred over was net of the debit so if there are other deferred members with pension debits that we are unaware of they will be quoted after deduction of the pension debit so member and survivor benefits will be correctly quoted.

2. In addition to these findings there were 930 cases where a deferred pension has not been calculated. These will be a mixture of the:
    a. legacy cases where we are awaiting information from the employer to process the deferred benefit calculation
    b. new cases which are newly notified and where a deferred benefit statement will be produced before 31 August 2019
    c. previously un-notified cases where a Pen 13 (leaver form) will be required from the employer

Action – The members under a. and c. will have their benefit entitlements confirmed to them when their deferred status has been processed. Members who had left service before 01/04/2019 and who are entitled to an annual deferred benefit statement are to be contacted and advised of the reason for the delay in the issue of their annual statement and when this will be resolved or when they will be provided with a further update as to the ongoing reason for the delay in providing their statement.

3. Members identified as being over their normal pension age (NPA) are required to get a letter advising that their pension should be in payment.

Action – All members over NPA will be written to.

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BARNET LONDON BOROUGH

Barnet Active Benefit Statement Testing Schedule

Purpose of tests

The enhanced testing, which is detailed in this testing schedule, was performed by Capita's technical team, is to ensure:

a) any additional manual activity to support the production of the annual benefits statements has been carried out correctly; and
b) the data upon which the calculation routines rely on is of sufficient quality as to produce accurate output on the annual benefit statements.

Enhanced testing encompassed three core areas:

1. **Calculation routine tests** – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
2. **Tolerance tests** – were applied to the input data to ensure that the data used in the calculation routines was reasonable
3. **Exception tests** – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 5 sections and the data output to each of these sections was tested.

1. Calculation routine tests

Routine tested	Test run	Comments
CARE balance at 01/04/2018	Revaluation correctly applied to initial CARE pension recorded and total of all revalued CARE lines output to data extract.	A range of members was sampled including mid-year joiners where no CARE pension should be recorded unless the member completed an interfund adjustment. For all cases tested the pensions were correctly increased and the total was pulled through to the extract. Additionally, those mid-year joiners who had a CARE balance at 01/04/2018 had completed an interfund.

CARE balance at 01/04/2018	Late retirement increases are applied from normal pension age if the member was over normal pension age.	A targeted sample group of members over the Scheme's normal pension age was tested and the late retirement increase due had been included for all members checked.
Final salary benefits	A final salary pension and lump sum is calculated in respect of any reckonable pensionable service attributable to an Earlier Scheme in which service counts at an 80th accrual.	The targeted sample on the calculation routine showed that the correct pension and automatic lump sum were being output. Although exception tests revealed some data issues in member records, these data issues did not impact the calculation routine which produced the expected output for the pension elements stored.
Final salary benefits	A final salary pension is calculated in respect of any reckonable pensionable service attributable to the 2008 Scheme in which service counts at a 60th accrual	The targeted sample on the calculation routine showed that the correct pension was being output.
Final salary benefits	The late retirement increase due on any final salary benefits from age 65 is calculated if the member is over age 65.	The targeted sample on the calculation routine showed that the correct late retirement increase due on the pension and automatic lump sum was being output.
Additional pension	The correct proportion of the extra years or pension bought by the member or employer is output.	The targeted sampling of the methods used by a member or employer to provide additional pension were tested and the expected outputs were returned.
CARE balance at 31/03/2019	Each pension element listed in section 8 of the report is correctly captured in the output produced.	A range of members was sampled including mid-year joiners where no revaluation should have been applied to first year's CARE accrual (statement date 31/03, revaluation applied 01/04). For all cases tested the revaluation on the CARE pension was correctly applied and the total pension, after the addition or subtraction of the various pension elements, was pulled through to the extract.
Total pension at NPA	CARE pension is projected to normal pension age for members under normal pension age on 1/49th of the member's annualised CARE pay if they were in the Main section at 31 March 2019 and on 1/98th if the	Sample testing of members with a range of service (including mid-year joiners) in the 50/50 section and the Main section showed that projections were being calculated at the correct accrual rate for the period between 1 April 2019 and the

	member was in the 50/50 section.	member's normal pension age on the member's annualised CARE pay. NB no members who joined the Scheme in 2018/19 took up 50/50 membership so this element of the calculation routine was not tested.
DIS lump sum	DIS lump sum is three times annualised CARE pay	A range of members with long service and short service (inc mid-year joiners) were tested and in all cases tested the routine produced either three times CARE pay or, in the case of mid-year joiners, three times annualised CARE pay.
% LTA used	Figures populated are equal to 20 times pension plus lump sum divided by £1,030,000 times 100	Agreed
Survivor benefits	The survivor benefit output reflects the correct proportion of the final salary and CARE pension built by the member	A range of members, including those with final salary pension counting at 1/80th and 1/60th accrual, were tested and the routine correctly determined the proportion of the member's pension that should count towards the member's survivor's pension for all members tested.

2. Tolerance tests run

Input data tested	Test run	Comments
CARE Pay v Final Pay	CARE Pay is commensurate with Final Pay and vice versa having regard for the member's working pattern and non-contractual overtime.	There were 12 cases identified where we felt the pay reported should be queried with the Scheme employer because the difference between the CARE pay and the final salary pay did not appear to be consistent with or could not be explained by the EOY data provided or the data held in the member's record. Annual benefit statements will be produced once the data queries have been adequately answered. For the remainder of the exceptions identified through targeted

		sampling, the difference between pays could be adequately explained by the data held in the member's record.
Total pension at 31/03/2019	The pension built is commensurate with the length of time the member has spent in the scheme	We targeted and sampled members who had built up a low level of pension or a high level of pension by reference to their length of pensionable service to see if the pension built was reasonable for the length of time the member had been in the Scheme. We found that low pension build up related to members who had not worked full-time during their final salary membership or who had low pensionable pay. Members with higher pensions generally had long service and/or high pensionable pay. Additionally, members who had been in the Scheme for a short period, such as new members joining in March 2019, only built high pensions, in comparison to their period of pensionable service, if they had transferred in earlier service.
Total pension at NPA	Differences between total pension at 31 March 2019 and normal pension age are commensurate with member's age and pensionable pay.	We targeted and sampled members who showed a small or large increase in their total pension between 31 March 2019 and normal pension age. We found that small increases related to members wo were low waged or close to their normal pension age. Large increases were attributable to high earners or young members who were projected to remain active members for a long period.
Final salary benefits at NPA and 31/03/2019	For members under age 65 at 31 March 2019, the final salary pension and lump sum at normal pension age is greater than the final salary pension and lump sum at 31 March 2019.	Agreed and difference is attributable to late retirement increases applied between age 65 and normal pension age.

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3. Exception tests run

Section 1

Personal Details

Field on Statement	Test Done	Comments
Name	All rows populated with members' title	**Findings** • 43149184 incorrectly populated with Zmis instead of Miss • 45123683 incorrectly populated with Zms instead of Ms
		Actions taken • Titles corrected
Name	All rows populated with members' initials	**Findings** • 100% populated
		Actions taken • N/A
Name	All rows populated with members' surname	**Findings** • 45179060 first name only showing
		Actions taken • This member has insisted in being known by one name only and to comply with equality rights only one name shown – no action taken as record correctly reflects member's name
Date of Birth	All rows populated with correctly formatted date of birth	**Findings** • Agreed
		Actions taken • N/A
Date of Birth	All dates prior to date joined scheme and age not less than 16 at date of joining	**Findings** • Agreed
		Actions taken • N/A

Date of Birth	All dates of birth produce an age that is less than 75	**Findings** • Agreed
		Actions taken • N/A
Member reference number	All rows populated with 8 digit reference number	**Findings** • Agreed
		Actions taken • N/A
Employer at 31 March	All rows populated with valid employer name	**Findings** • Agreed
		Actions taken • N/A
Date joined scheme in employment	All rows populated with correctly formatted date joined scheme	**Findings** • Agreed
		Actions taken • N/A
Date joined scheme in employment	All dates of joining produce an age between 16 and 75	**Findings** • Agreed
		Actions taken • N/A
Section of Scheme at 31 March	Value showing in col Q is either 'Main' or '50/50'	**Findings** • Agreed
		Actions taken • N/A
Section of Scheme at 31 March	A value is present in at least one of Main Section Pay (col AR) or 50/50 Section pay present (col AS)	**Findings** • Agreed
		Actions taken • N/A
Normal Pension Age	All populated with SPA	**Findings** • Agreed

		Actions taken • N/A
Final Salary Membership from date	All dates pre 01/04/2014	**Findings** • Agreed
		Actions taken • N/A
Final Salary Membership from date	All blanks have date of joining after 31/03/2014	**Findings** • Agreed
		Actions taken • N/A

Final Salary Membership date to	All dates populated are 31/03/2014, unless no 'from date' present, in which case, no 'to date' present.	**Findings**
		• A number of fails were found, with the exception of 42916784, all fails were due to:
		  ○ a transfer of service before 01/04/2014
		  ○ an aggregation or interfund adjustment containing service which ended before 01/04/2014
		  ○ an earlier period of service ending before 01/04/2014 recorded as non-pensionable (to show not refundable)

		Actions taken • 42916784 transferred in final salary service to 31/08/2014 from another public service pension scheme. Only the LGPS in England & Wales reformed to CARE in 2014 so final salary end date for transferred in service is correct – no action taken
Final Salary Membership date to	All blanks have a date of joining after 31/03/2014	**Findings** • Agreed
		Actions taken • N/A
CARE scheme date from	All populated with dates after 31/03/2014	**Findings** • Agreed
		Actions taken • N/A

CARE scheme date from	No CARE pension recorded before 'date from' if no pensionable service before 'date from' unless an interfund adjustment or aggregation of earlier benefits that included earlier CARE pension has taken place	**Findings** • 43055037 joined 01/10/2015 but has CARE pension for period from 01/05/2014
		Actions taken • Member had a non Club transfer in after joining which bought earned pension – no action taken, record correct
CARE scheme date to	All dates later than CARE scheme date from	**Findings** • Agreed
		Actions taken • N/A
CARE scheme date to	No dates later than scheme year end	**Findings** • 44804504 date to is after scheme year end
		Actions taken • Correction made

Section 2

Summary of total benefits at 31 March 2019

Field on Statement	Test Done	Comments
Annual Pension	Figures populated for all members and value greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
Annual Pension	Value of pension agrees with sum of pension quoted in sections 3 and 4	**Findings** • Agreed
		Actions taken • N/A
Automatic lump sum	Value only present if date joined scheme is before 01/04/2008	**Findings** • A large number of members were found to have an automatic lump sum even though the date they joined the scheme was

		not before 01/04/2008. All except four members had done an interfund or amalgamated previous earlier service which contained service before 01/04/2008.
		Actions taken • 41965250, 41965252, 41965258 – employer augmentation incorrectly recorded in 2009 – Contract code updated • 43051092 contained an incorrect benefit code which resulted in 60th final salary service (i.e. service between 01/04/2008 and 31/03/2014) as being coded to produce 80th final salary benefits – Service lines updated to show correct benefit type
% of LTA used	All populated with value greater than £0.00	**Findings** • 45187669 % of LTA used showing as zero
		Actions taken • New entrant in March 2019 with £22.50 CARE pay, £0.46 CARE pension which rounds to zero on calculating % LTA used – no action taken as output is correct
% of LTA used	Value represents % of capital value of pension and lump sum showing in section 2 against LTA of £1.03m	**Findings** • Agreed
		Actions taken • N/A
DIS lump sum	All populated with value greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
DIS lump sum	Value represents 3 x CARE pay	**Findings** • Agreed with the exception of new entrants during scheme year
		Actions taken • New entrants during scheme year correctly reflect 3 x annualised CARE pay. This is correct so no action required.
Annual survivor's pension	All populated with value greater than £0.00	**Findings** • Agreed

		Actions taken • N/A

Section 3

CARE benefits at March 2019

Main Section pensionable pay	If section of Scheme at 31 March is 'Main' value present and greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
50/50 Section pensionable pay	If section of Scheme at 31 March is '50/50 ' value present and greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
CARE pension account balance at 01/04/2018	Figures populated are the sum of the member's CARE account to 31/03/2018 plus revaluation of 3%	**Findings** • Agreed
		Actions taken • N/A
Revaluation	Annual benefit statement template updated so that '3%' revaluation is output on all statements	**Findings** • Agreed
		Actions taken • N/A
2018/19 Main Section	If Main Section pensionable pay populated value present and equal to 1/49th of pensionable pay	**Findings** • Agreed
		Actions taken • N/A
2018/19 50/50 Section	If 50/50 Section pensionable pay populated value present and equal to 1/98th of pensionable pay	**Findings** • Agreed
		Actions taken • N/A

Additional Pension Bought	Figures populated less than Annual Pension	**Findings** • Agreed **Actions taken** • N/A
Transfers in	If member has received a transfer value in scheme year a value is present	**Findings** • Agreed **Actions taken** • N/A
Pension Sharing Debit	Figures less than Annual Pension	**Findings** • Agreed, only one member with a CARE pension debit **Actions taken** • N/A
Scheme pays debit	Figures less than Annual Pension	**Findings** • Agreed, only two members with a scheme pays pension debit **Actions taken** • N/A

Section 4

Final salary pension benefits

Field on Statement	Test Done	Comments
Final salary pay	Figures populated for all members with date joined scheme before 01/04/2014	**Findings** • Agreed **Actions taken** • N/A
Annual Pension	Figures populated for all members with date joined scheme before 01/04/2014	**Findings** • 41996598, 41998504, 41996597, 41998474, 43496679, 41998247, 43438447, 41996569, 41991890, 43035705, 41996492, 42780527, 41998247 these members all showed a start date in the 2008 Scheme but showed as having no

		reckonable service before 01/04/2014
		Actions taken • 41996598, 41998504, 41996597, 41998474, 43496679, 41998247, 43438447 and 41996569 are all zero hour contractors who have no hours worked before 01/04/2014 so no final salary pension due – no action taken as record is correct • 41991890 no pensionable service prior to 1 April 2014, first contribution paid after 1 April 2014 so no final salary pension due – no action taken as record is correct • 43035705 & 42780527 members joined after 31/03/2014 and transferred in a non Club earlier pension entitlement which bought earned pension service credit so no final salary pension due – no action taken as record is correct • 41996492 member opted in 01/11/2013 and record set up 29/01/2014 to show member as a zero hour contractor. However, member was in full-time employment and paid contributions. Service line corrected to show as pensionable • 41998247 this member opted into the scheme 01/02/2013, set up as a zero hour contractor, payroll opted the member out 01/04/2013 but record left active and contributions notified in the end of year return for the period from 01/02/2013 were added to the pension record although no pensionable service recorded. Looks as if the member was actually working full-time term-time – contacted payroll to confirm actual pensionable service for period 01/02/2013 to 31/03/2014
Additional pension bought	Figures populated less than Annual Pension	**Findings** • Agreed
		Actions taken • N/A

Pension Sharing Debit	Figures less than Annual Pension	**Findings** • Agreed, debit present for known cases
		Actions taken • N/A
Scheme pays debit	Figures less than Annual Pension	**Findings** • Agreed, no Scheme Pays debits before 01/04/2014 for active members
		Actions taken • N/A
Automatic lump sum	Figures populated for all members with date joined scheme before 01/04/2008	**Findings** • Agreed
		Actions taken • N/A
Automatic lump sum	No figures populated for members with date joined scheme after 31/03/2008	**Findings** • A large number of members were found to have an automatic lump sum even though the date they joined the scheme was not before 01/04/2008. All members, except four, had an interfund or amalgamated previous earlier service which contained service before 01/04/2008.
		Actions taken • 41965250, 41965252, 41965258 – employer augmentation incorrectly recorded in 2009 – Contract code updated • 43051092 wrong benefit code used in service history record – Service lines updated to show correct benefit type
Automatic lump sum		**Findings** • 41991159 member showing with reckonable service before 01/04/2008 but no corresponding lump sum or 80th pension
		Actions taken • Member joined after 31/03/2008 and transferred in earlier service from another pension arrangement which purchased a 60th pension service credit – no action taken as record correct

Less pension sharing debit on automatic lump sum	No figures populated for any members with service that is solely in respect of service after 31/03/2008	**Findings** • Agreed, debits correctly recorded
		Actions taken • 41969435 – lump sum debit present, member has service before 01/04/2008 • 41991368 – no lump sum debit, service before 01/04/2008 was transferred in on non Club basis and bought 60th service credit

Section 5

Pension Payable from your NPA

Field on Statement	Test Done	Comments
NPA	All populated with SPA	**Findings** • Agreed
		Actions taken • N/A
Total Pension @ NPA	Figure greater than £0.00 for all members	**Findings** • Agreed
		Actions taken • N/A
Total Pension @ NPA	Agrees with total of Final Salary + CARE benefits inclusive of appropriate late retirement increases	**Findings** • Agreed
		Actions taken • N/A
Projected CARE pension	Populated with same value showing in section 3 plus CARE pension projected on annualised CARE pay and current accrual rate for period to NPA	**Findings** • Agreed
		Actions taken • N/A

Projected Final Salary Pension	Value only present if member joined the Scheme before 01/04/2014	**Findings**
		• A large number of fails found but, with the exception of 43051092, all fails due to:
		  ○ a transfer of service before 01/04/2014
		  ○ an interfund adjustment
		  ○ aggregation of an earlier period of service

		Actions taken • 43051092 wrong benefit code used in service history record – pension record corrected
Projected Final Salary Pension	Populated with same value showing in section 4 plus late retirement increases applying to final salary pension for the period between normal pension age of 65 and State Pension age (where SPA is greater than age 65)	**Findings** • Agreed
		Actions taken • N/A
Pension Sharing debit	Populated with sum of debits showing in sections 3 and 4	**Findings** • Agreed
		Actions taken • N/A
Scheme Pays debit	Populated with sum of debits showing in section 3	**Findings** • Agreed
		Actions taken • N/A
Total Lump Sum @ NPA	Agrees with automatic lump sum figure in section 4 plus late retirement increases applying to automatic lump sum for the period between normal pension age of 65 and State Pension age (where SPA is greater than age 65)	**Findings** • Agreed
		Actions taken • N/A
Pension sharing debit on lump sum	Populated with sum of debits showing in sections 3 and 4	**Findings** • Agreed
		Actions taken • N/A
% of LTA used	All populated with value greater than £0.00	**Findings** • Agreed

		Actions taken • N/A
% of LTA used	Value represents % of capital value of pension and lump sum showing in section 5 against LTA of £1.03m	**Findings** • Agreed
		Actions taken • N/A
Prospective survivor's pension	All figures greater than £0.00	**Findings** • Agreed
		Actions taken • N/A
Pension sharing debit on survivor's pension	Debit on survivor's benefit correctly calculated	**Findings** • Agreed
		Actions taken • N/A

Notes

1. Pension debit and credit members additional steps taken.
   During testing a lower than expected number of pension credit members and pension debit members were found. In consequence, an audit was run to determine whether the numbers found were reasonable. There are two casetypes used to record cash equivalent transfer values (CETV) requested by members and one casetype for recording any pension sharing order (PSO) that is received. A report was run through Hartlink to identify the requests made on these casetypes. The results revealed that since 1 March 2014 over a hundred members have made an enquiry in respect of a divorce CETV/PSO. Four of these cases have progressed to a PSO and all of these debit members are pensioners except for one member who is still an active member. Based on these numbers and experience we are not unduly concerned that there is only one pension debit member in the legacy active member data as there were only six pension debits applied in the period 1 December 2000 to 28 March 2014; four of these debits relate to pensioner members and one relates to a deferred member.

CAPITA

August 2019

Annual Benefit Statements 2019

Quality checks performed

Prepared for **London Borough of Barnet**

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Appendices

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1. Introduction

The Pensions Regulator has stipulated that the Scheme Manager must by 31 August 2019 have taken all steps necessary to implement and operate adequate internal controls to provide accurate annual benefit statements for the Scheme year 2018/19. This will be evidenced by the Scheme Manager demonstrating that:

- a process is in place to test the quality of calculations used to populate annual benefit statements;
- the process was utilised; and
- corrections were made where calculation errors were identified.

This report sets out the processes and quality checks undertaken by Capita's technical and events teams during the production of the 2019 annual benefit statements for active, deferred, deferred pensioner and pension credit members.

The scheme administrator, Capita, has employed a two tier process to ensure that the quality and integrity of, not only, the calculations used to populate the annual benefit statements but also the data contained within the calculation routines is of the highest possible standard. Additionally checks have been carried out throughout the entire process to track and control the data that has been submitted by employers which has then been used in the calculation of the annual benefit statements.

The controls and checks employed by the events team are stored in Appendix 1. In addition to these checks, further enhanced testing was performed by the technical team on the data output used to populate the annual benefit statements to ensure that the expected outcomes were returned across the full membership being issued with an annual benefit statement.

Areas identified during testing as meriting further explanation are covered in detail within this report.

2. Quality check approach adopted

Initially, the scheme administrator, Capita, was asked to sample test at least 3% of the benefit statements produced. However, on further discussion about the approach undertaken to ensure the quality and accuracy of the annual benefit statements produced, it was decided that this approach should be revised.

Random sampling is akin to hunting for a needle in a haystack and it is possible to pull out 300 pieces of straw from the haystack without stumbling across a needle, even though a needle or two may exist. Therefore to ensure that any potential issues were located and dealt with, targeted and random sampling combined with tolerance and exception testing was employed.

Targeted and random sampling

Targeted sampling enabled all of the calculation routines used in the production of the annual benefit statements to be tested, ensuring that the outputs of the routines gave the expected outcomes. The number of routines employed in the production of the annual benefit statements is finite so once it was clear that a routine worked under the various possible permutations, random sampling was employed to further test and confirm the outcome of the targeted sampling.

Additionally, targeted sampling ensured that any manual activity, such as the merger of the reports used to produce the deferred benefit statement extract, was successfully completed.

Tolerance and exception testing

Every data field output onto the annual benefits statement was subjected to exception testing. The tests carried out were designed to ensure that the expected information was accurate and presented correctly. An explanation on the purpose of the key tests and the findings of these tests is given within this report. All of the exception tests run, the results and actions taken as a result of any reported exceptions are contained in appendix 2 for deferred members and appendix 3 for active members.

Tolerance testing enabled source inputs provided by employers to be tested for reasonableness. For example, was the difference between CARE pay and final salary pay reasonable and reflective of, say, a member's part-time working pattern? The tolerance and exception tests run, the results and actions taken as a result of any reported tolerance breaches or exceptions are contained in section 6 of this report or appendix 2 for deferred members and appendix 3 for active members.

This tolerance and exception testing approach has been adopted as the number of routines employed in the production of the annual benefit statements is finite and whilst bulk random testing should show that the routines are working, it does not address the other key qualifier for ensuring accurate benefit statements – accurate input data. This enhanced tolerance and exception testing on the input data and calculation output data ensured that the accurate data needed to produce the annual benefit statements was returned across the full membership and gives the assurance sought by the Scheme Manager that the calculation routines and data output that was used to produce the annual benefit statements was to the highest possible standard.

Testers and extract production

The events team used reports containing data held in member pension records to create the data extracts that populated the annual benefit statements for the active and deferred membership. The statements issued to active members were populated using a single report. Seven reports were combined to form the extract used to populate the statements issued to the deferred membership. The controls and reasonableness checks undertaken by the events team in the production of the annual benefit statement extracts is outlined in section 3 of this report.

It was these extracts, which are used to populate the annual benefit statements, which were passed to the technical team for quality testing. The targeted and random sampling combined with tolerance and exception testing that was employed by the technical team to test the input and output data is outlined in sections 7 and 8 with special mention given to the findings on debits arising from divorce proceedings or a member's request for the Scheme to pay their annual allowance tax charge in sections 4 and 5 respectively.

Exceptions reported by the technical team were investigated and confirmed by the events team and the operations team who carried out any remedial action required to member records.

The team members responsible for the testing and correcting of data were as follows:

Technical team testers:	Catherine Carruthers, LGPS Technical Manager Roger Swift, Technical Consultant LGPS Martyn Slaughter, Technical Consultant LGPS Andrew Beedall, Technical Consultant LGPS Ellie Ingamells, Technical Consultant
Events team members:	Glynn Oliver, Senior Pensions Administrator Michael Gladstone, Senior Pensions Administrator
Operations team member:	Emma Walton, Pensions Administrator

3. Controls and reasonableness checks undertaken by the events team

End of year (EOY) data requests were issued on 6 March 2019 and employers were requested to return their EOY data by 30 April 2019.

EOY data is used in the production of the annual benefit statements and the pension savings statements that are issued to members whose pension savings exceed the annual allowance of £40,000. The statutory deadline for the submission of EOY data under the Local Government Pension Scheme (LGPS) Regulations is that it must be submitted within three months of the scheme year end (i.e. by 1 July each year). The statutory deadline for the submission of EOY data for use in the production of pension saving statements is by 6 July each year.

If EOY data is submitted after these statutory deadlines the annual benefits statements can still be produced providing the EOY data is received before 31 July.

The events team performed some initial checks on the EOY data received to ensure that the data was of suitable quality to upload into the pension administration system, such as:

- Comparing the number of active members held on the pension administration system with the return submitted by the employer
- Identifying any differences and determining if these arose from members joining or leaving the Scheme, requesting the relevant notices if these had not been previously supplied
- Verifying unique pension member identification number counts ensuring no duplicate entries existed
- Active membership date had been completed and that it matched the date already held on the member's pension record
- Where a leaving date was entered, that the correct leaver notification had also been received
- Final salary pay given was greater than the minimum wage and it was not too high or too low for the member's role
- Where a 50/50 pensionable pay was provided had the move to the 50/50 section been notified and vice versa if no 50/50 pensionable pay was reported but the member's pension record showed they were in the 50/50 section
- Any minus or missing amounts i.e. was the necessary/required data present
- Contract working hours were detailed as full-time (FT), part-time (PT) or term-time (TT)
- We had received data for every post i.e. if we had three active member records for a person for that employer, we also had three lines of data
- No text appeared in numerical columns
- The employer and employee contributions had been placed into the correct columns
- EOY was signed off as complete and correct by the Employer/Payroll Provider

Any fails of the reasonableness checks or any non-standard templates received were returned as these could not be uploaded into the pension administration system. The control sheet for this work activity (events team log book) is stored as Appendix 1.

4. Divorce debits

During testing the technical team discovered that the number of pension debit and pension credit members were significantly lower than expected.

Debit / Credit	Active members	Deferred members	Pensioner members
Pension debit	2 (1 legacy data)	1 (legacy data)	7 (4 legacy data)
Pension credit	N/A	6 (4 legacy data)	4 (2 legacy data)

We have reviewed the number of requests received since 1 March 2014 which relate to divorce proceedings. There are specific dedicated casetypes which can be used to record requests received relating to divorce actions and the initial search conducted by technical showed that seven enquiries had been received of which four related to cases where a pension sharing order was implemented.

Due to the low volume of cases identified a further search was conducted by the technical team. This search centred of the casetypes used to record requests received for cash equivalent transfer values; this is the only other casetype that can be used to record a request for a cash equivalent transfer value.

A visual check of the documents held under the casetype for the cash equivalent transfer value requests showed that 134 requests out of the 333 cases identified related to cash equivalent transfer value (CETV) requests for divorce proceedings of which three of these requests had progressed to require the implementation of a pension sharing order. Two of the pension sharing order (PSO) cases identified matched those already known with the third case relating to an implementation which is currently in progress (a new case received in July 2019).

Scheme year	CETV requests received	Progressed to PSO
2013/14	6	1
2014/15	27	1
2015/16	25	0
2016/17	8	0
2017/18	29	0
2018/19	30	0
2019/20	9	1

We are unable to interrogate the legacy data (i.e. data before 1 March 2014) in the same way to validate the numbers of pension sharing orders that have been implemented since 1 December 2000. However, given the experience since 1 March 2014 we feel that the six known cases could be reflective of the actual numbers received.

It should be noted that the responsibility for providing a pension provider with a copy of the sealed pension sharing order rests with the member, spouse or the Court. This position is currently set out in

the Family Procedure Rules under Rule 9.36(2). This Rule can be found on the Ministry of Justice website at https://www.justice.gov.uk/courts/procedure-rules/family/parts/part_09.

In consequence, it is not expected that administrators of pension arrangements follow up requests for cash equivalent transfer values as many separating parties do not enter into a pension sharing arrangement and there is a requirement built into the relevant Court procedures, which should result in the scheme administrator being provided with a copy of any pension sharing order issued by the Court.

Consequently, for those cases we have identified since 1 March 2014 as having started divorce proceedings by the member requesting a cash equivalent transfer value, if a pension sharing order had been issued by the Court for these cases, notification of the order should have been received and recorded in the member's pension documents folder.

The documents folders of the 134 cash equivalent transfer value requests identified were visually checked and, with the exception of the newly reported pension sharing order and the known cases, no documents relating to pension sharing were found. We are, therefore, satisfied that the four known pension sharing order implementations between 1 March 2014 and 31 March 2019 is correct even though it is an unexpected result and we are also satisfied that these debits are correctly reflected in the annual benefit statements that have been issued.

However, to ensure members are reminded to contact the pension scheme administrators to ensure they understand how pension debits arising from a divorce affects their pension, an adjustment has been made to this year's annual benefit statement to direct members to contact the pension scheme administrators if they have entered into a pension sharing agreement.

5. Scheme pays debits

During testing we were only able to identify one Scheme Pays debit in the legacy data. Whilst this may seem low it is possible that this is reflective of the correct position. The annual allowance dropped from £255,000 to £50,000 with effect from the Scheme year 2011/12 so Scheme Pays debits from before 1 April 2011 are not expected.

Whilst we cannot verify if an annual check for annual allowance excesses was performed in the legacy data, the known Scheme Pays debit relates to the Scheme year 2011/12. Additionally, as the annual allowance was £50,000 and members could use the carry forward available from the previous three years to offset their annual allowance excess it would not have been unusual for a Fund of this size to have had only one or two cases of Scheme Pays elections a year; particularly in light of the public sector pay restraint that was prevalent during this era.

To give some added surety that the numbers are reasonable we interrogated the data arising from the annual allowance checks done since 2014/15.

Year	Number exceeded	Excess offset by carry forward	Scheme paid AA excess
2014/15	7	Yes	N/A
2015/16	4	Yes for 3 & no for 1	No elections received
2016/17	24	Yes for 20 & no for 4	2 elections received
2017/18	22	Yes for 16 & no for 6	2 elections received

The low number of members who exceeded the annual allowance in 2015/16 is not unexpected and is explained by the alignment of the pension input period to the tax year which gave members the ability to save up to £80,000 for the period 1 April 2015 to 5 April 2016 (the 2015/16 pension input period). In the 2015/16 pension input period, 14 members had pension savings that exceeded £40,000 but due to the way their savings were apportioned to the pre and post alignment pension input periods, these members did not exceed the annual allowance.

We have carried out a visual check of the documents held in the documents folders for those members who did not have sufficient carry forward to offset their annual allowance excess to ensure a Scheme Pays election has not been received. Additionally, we have reconciled the number of Scheme Pays elections received against the Scheme's finances and have matched the number of debits arising from elections relating to the period from 31 March 2014 to 5 April 2018 against the payments made to HM Revenue & Customs. We are, therefore, satisfied that the number of known Scheme Pays debits we hold which were implemented for the period 31 March 2014 to 5 April 2018 is correct and that these debits are correctly reflected in the annual benefit statements that will be issued.

However, to ensure members understand how pension debits arising from a request for the Scheme to pay their annual allowance tax charge affects their pension, this year's annual benefit statement directs members to contact the pension scheme administrators if they have made an election for the Scheme to pay their annual allowance tax charge.

6. Additional pension

There are four main ways for a member's Scheme benefits to be increased:

- Added years – extra service is bought by the member at either a 60th or 80th accrual
- Additional Regular Contributions – extra pension is bought by the member
- Additional Pension Contributions – extra pension is bought by the member
- Augmentation – extra service at a 60th accrual or extra pension is bought by the employer

During tolerance testing of the additional pension contracts in the deferred and active population three anomalies in the data were detected.

The first anomaly related to four augmentation cases (one deferred, three active). These members had been awarded additional service by their employer for service carried out in 2008. This augmentation was to service and increased the member's 60th accrual so an automatic lump sum would not be expected. For all four cases an automatic lump sum was found; however, the 2013 annual benefit statement (last statement issued before pension data migrated to Hartlink) for these members did not show a lump sum. This could indicate a migration error so we checked all of the added years and augmentation cases that migrated and no further cases could be found where augmentation has been stored incorrectly. The pension records and annual benefit statements have been corrected.

The second anomaly related to changes to added years contracts as a result of part-time hour changes. For example, the historic changes to 9 July 2013 for one member was found to be incorrect; we do not believe that this is a migration error as all other members who migrated with historic part-time changes had correct data in their contract records. Additionally, we can see from the affected member's 2013 annual benefit statement that their added years were overstated which suggests that there was a record keeping error. The error identified has resulted in the deferred benefits in relation to

added years being overstated for the affected member. This overstatement has been corrected on the member's pension record and annual benefit statement.

The third and final anomaly related to changes to added years contracts as a result of the contributions stopping before the contract completion date and affected three members. We do not believe that this anomaly relates to a migration error as there were other cases where the record that migrated was correct. Additionally, we can tell from the 2013 annual benefit statement that was issued to these members that their added years were overstated which suggests that there was a record keeping error. The error identified has resulted in the deferred benefits in relation to added years being overstated for the affected members. This overstatement has been corrected on the member's pension record and annual benefit statement

All members for whom we perform a correction to their deferred benefits will be notified of the correction made.

7. Deferred benefit statement checks

A key area to address was that the expected pension elements were present across the membership. For example, a member with pensionable service before 1 April 2014 would be expected to have a final salary entitlement showing on their annual benefit statement.

To ensure confidence that the correct pension elements were present in the data used to create the annual benefit statements, a number of tests were run against:

- the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements: and
- the calculation outputs that were then used to populate the annual benefit statements.

This ensured that the quality of the data used in the routines employed was of sufficient quality to ensure the accuracy of the deferred benefits quoted. Three groups of tests were applied to the membership for whom an annual benefit statement could be produced and which are scheduled to be issued before 31 August 2019; this numbered 9,343. The tests run encompassed three core areas:

- Calculation routine tests – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
- Tolerance tests – were applied to the input data to ensure that the data used in the calculation routines was reasonable
- Exception tests – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 4 sections and the data output to each of these sections was tested

The results of the tests run are recorded in appendix 2 and an overview of main tests is given below.

Calculation routines tested

There are a limited number of calculations run to produce the data that is required to populate the annual benefit statements. This is because the deferred benefits quoted in the annual benefit statement are derived from the initial deferred pension benefits held and extracted from the member's deferred benefits record in the pension administration system; this record is updated when the member leaves service with the pension data, pension and lump sum (if any), showing on the deferred pension statement that is issued to the member when they leave pensionable service.

Pension and lump sum revaluation routine

Pensions increase is added to the initial pension (including any additional pension bought) and initial lump sum (a lump sum only applies to members with pensionable service before 1 April 2008) to arrive at the value of the member's pension and lump sum as at the date of the annual benefit statement. The check performed ensured that the member's initial pension and lump plus pensions increase matched the value that would show on the annual benefit statement. Where a Treasury order also applied (affects leavers after 31 March 2014) a check was run to ensure the correct increase in respect of the order had been applied. A range of leaving dates was tested and all of the cases tested showed the correct level of increase had been applied.

Survivor benefits routine

Exception testing proved that there were data issues with the survivor benefits data held in legacy deferred member records. For example, a pension credit member set up in 2006 was found to have a contingent survivor's pension attached to their pension record but pension credit members do not have an entitlement to a contingent survivor's pension. This record keeping error will be corrected by a job request (JR) being raised to remove the incorrect entitlement and this will similarly apply to any other data errors identified which affect member pension records.

However, due to suspected data quality issues, we have never relied on the legacy data for the survivor pension output used in the annual benefit statements. Instead we have always derived the survivor's pension from the member's extracted initial pension plus any pensions increase or Treasury orders, using the rules set out in the LGPS Regulations. Exception/sample testing highlighted an error in the formula that was manually applied to the 2018/19 extract. This formula error was corrected and targeted testing was then employed to ensure the output delivered was correct.

Lifetime allowance routine

The percentage of lifetime allowance used was derived from the member's initial deferred pension and lump sum, if any. Any applicable pensions increase or Treasury orders due since the member's date of leaving was added to these initial amounts before being tested against the lifetime allowance in force at the date of the annual benefit statement to determine the percentage lifetime allowance used. Sample testing confirmed that the calculation routine employed to produce this output was correct and the expected outcomes were being delivered i.e. initial deferred pension and lump sum plus any pensions increase or Treasury order was tested against the current value of the lifetime allowance.

Death grant routine

The final calculation used to produce the deferred member extract was to determine the death grant that would become payable. The death grant was derived from the member's extracted initial pension, plus any pensions increase or Treasury orders, using the multipliers set out in the LGPS Regulations. Sample testing confirmed that the calculation routine employed to produce this output was correct and the expected outcomes were being delivered.

Tolerance tests run

These tests were designed to ensure that the level of benefits being quoted were reasonable and commensurate with the member's pensionable service and earnings. Sample testing within the target groups of low and high deferred benefit entitlements confirmed that low entitlements were linked to low pensionable service or low pensionable pay; high entitlements were linked to long periods of pensionable service or high pensionable pay.

However, the tolerance testing for reasonableness on the additional pension bought purchased by members threw out some anomalies in respect of added years. The findings of this test are explained in detail in section 6.

Exception tests run

Only the key exception test results have been covered in this section. A full breakdown of the exception tests run, the findings of these tests and actions taken can be found in appendix 2.

Normal pension age

The normal pension age was tested for all members to ensure the correct data was being output. The normal pension age a member may have depends on when they left service and can be anywhere between age 60 and State Pension age.

There were no notable exceptions found. This was expected as the error discovered in the normal pension age held on the pension record for members who joined the Scheme before 1 April 1998 and who left before 1 October 2006 was corrected prior to this annual exercise commencing.

Presence of correct pension elements

Tests were run to ensure that a final salary pension and automatic lump sum was present for members who held pensionable service before 1 April 2008. Three exceptions were found where the lump sum was found to be missing. The correct data was present in the original deferred benefit statement issued to the members but had not been replicated in their member record. These pension records and the data used to populate the annual benefit statements have been corrected

For members with pensionable service before 1 April 2014 a check was done to ensure that a final salary pension was held. Additionally, where the member had also left service before 1 April 2014, we checked that no CARE pension was recorded. No exceptions requiring action were found.

For members with service after 31 March 2014 a check was done to ensure that a CARE pension element was held. There were 14 exceptions. Nine of the exceptions related to councillors whose service after 31 March 2014 builds as a final salary benefit; these members' benefits were correctly output as final salary for service after 31 March 2014. Of the five remaining exceptions only one record required correction to add CARE pension to the member's pension record and the data used to populate the annual benefit statement; however, the CARE pension was included in the original deferred benefit statement issued to the member.

Divorce debits

Please refer to section 4 of this report.

Scheme Pays debits

Please refer to section 5 of this report.

Survivor benefits

Exception testing proved that there were data issues with the survivor benefits data held in legacy deferred member records. For example, a deferred female member who left in 1987 (41970454) was found to have a contingent spouse's pension attached to their pension record but at the time this deferred benefit record was set up, this member did not have an entitlement to a contingent survivor's pension. A job request will be raised to correct the member's pension record and this will similarly apply to any other data errors identified during this exercise which affect member pension records.

Member 41992864 exception report

This member was paid a refund of contributions on 4 August 1995. The cheque number was 522777 and the contributions equivalent premium (CEP) was processed under the debit note numbered 92829.

In 2007 a CA form was issued by HM Revenue & Customs following the termination of employment advising that the member had a GMP of £0.10 per week. A letter was issued by the scheme administrator to HM Revenue & Customs advising that the CEP had been paid and that the Fund did not hold a liability for this member.

On receipt of this letter HM Revenue & Customs wrote back to requests details of the payment made, such as cheque number. Instead of supplying the details requested a deferred member record was set up and a note added to say 'Inforced Gmp. Ca Was Not Paid Record Set Up As Gmp Of 0.10 Pw Payable From 24.04.2019. Refund Was Paid. Pahi'.

However, as the member was under age 50 at the time this action took place the LGPS Regulations required the member to be reinstated into the State Earnings Related Pension Scheme (SERPS) via the payment of a CEP. This is because a CEP can be paid following the termination of contracted-out employment in the following circumstances:

- the contracted-out employment was by reference to a contracted out salary related (COSR) scheme
- the total period of contracted-out employment within the COSR scheme, must be less than two years
- the period of employment ended before the earner reached the scheme's normal pension age, or if earlier, the end of the tax year before the member reaches the age at which they become entitled to receive their guaranteed minimum pension (GMP)
- total qualifying service as defined by the Pension Schemes Act (PSA) 1993, is less than two years
- there are no accrued rights to short service benefit - except in the case of a widow or widower,
- an election is made by completing the appropriate termination notice, (the relevant CA form had been supplied to HM Revenue & Customs)
- and one of the following applies:
  - the earner ceases to be in contracted-out employment, and this is not due to the earner's death, unless the earner leaves a widow or widower, or
  - the scheme has ceased to contract-out on 6 April 1997 or later, or
  - the scheme is wound up on 6 April 1997 or later.

A CEP is not payable if:

- pension rights are transferred to another contracted-out scheme or to an Appropriate Personal Pension (APP)/Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme, or
- an employee exercises an option allowed under scheme rules to have pension rights preserved even though the qualifying conditions of the PSA 1993 are not satisfied, or
- an employee elects to have the pension rights secured through an insurance policy or annuity contract, or
- accrued rights include rights transferred in from an APP/APPSHP scheme, or
- a woman dies whilst in contracted-out employment, and the period of contracted-out employment is entirely before 5 April 1997, or
- a woman has paid reduced-rate contributions for the whole period of contracted-out employment, or
- the scheme has ceased to contract-out or is wound up before 6 April 1997

We do not believe this member was entitled to receive a deferred benefit because the conditions for the payment of a CEP were met and none of the conditions that would prevent a CEP payment were met. Additionally, unless the GMP had been enforced due to the member reaching GMP age, the LGPS regulations required the member's entitlement to a Scheme benefit to be extinguished by payment of a

refund and CEP; the member did not have the option to elect for a deferred benefit in lieu of a refund and had, in fact, already been refunded their contributions.

Unfortunately, the actions taken in 2007 did not comply with the statutory provisions in force at that time. This means that as the member has now reached their GMP age it is not possible to reinstate their membership into SERPS in line with the requirements of the LGPS Regulations. Instead, the provisions of the PSA 1993, which override the LGPS Regulations in this situation, must be complied with and a retirement benefit must be paid.

We believe that as the member has been paid and accepted their refund of contributions, only the GMP must now be paid. The total GMP now due payment is £0.21 per week. It is not possible to extinguish this entitlement by payment of a small pots (de minimis) payment as this is not permitted under the LGPS Regulations. A trivial commutation could be paid if the member has no other pension rights or if the capital value of all of their pension rights is less than £30,000. However, if a trivial commutation was not possible, subject to administering authority approval, we would propose to pay the pension annually in advance each April.

8. Active member statement checks

Again the key focus of the checks undertaken was to ensure that the expected pension elements were present across the total membership due to be issued with an annual benefit statement. To this end, a number of tests were run against:

- the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements: and
- the calculation outputs that were then used to populate the annual benefit statements.

This ensured that the quality of the data used in the routines employed was of sufficient quality to ensure the accuracy of the retirement benefits quoted. Three groups of tests were applied to the membership for whom an annual benefit statement could be produced and which are scheduled to be issued before 31 August 2019; this numbered 6,565. The tests run encompassed three core areas:

- Calculation routine tests – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
- Tolerance tests – were applied to the input data to ensure that the data used in the calculation routines was reasonable
- Exception tests – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 5 sections and the data output to each of these sections was tested

The results of the tests run are recorded in appendix 3 and an overview of main tests is given below.

Calculation routines tested

The eight core calculation routines, inclusive of their subroutines, were tested.

CARE pension built at beginning of the Scheme year

Within the pension administration system CARE pension is stored year by year with each Scheme year entry recording the:

- Initial amount of CARE pension earned
- Cumulative revaluation applied on 1 April
- Current level of CARE pension i.e. the sum of the initial CARE pension and the revaluation

We checked that the initial amount of CARE pension recorded had the correct revaluation applied and that the total current level of CARE pension matched the output showing on the extract used to populate the annual benefit statements. In all cases sampled, the extract correctly pulled through the total CARE pension and revaluation built up by the member at the beginning of each Scheme year.

Additionally, if the member was over normal pension age, the routine will add the requisite late retirement uplift to the CARE pension built by reference to the late retirement increase factor and the number of days by which the member exceeds their normal pension age. The targeted testing for this group of members showed that the correct amount of late retirement increase was being calculated and output.

Final salary benefits

If a member has pensionable service before 1 April 2014 we would expect to see a final salary pension and an automatic lump sum if the member had service before 1 April 2008.

Exception testing showed that for some members we were getting an unexpected output i.e. an automatic lump sum when none should be expected. These exceptions related to the augmentation in pensionable service granted by an employer to three members in 2009 whose increase in service had been incorrectly recorded resulting in an automatic lump sum being recorded. These errors have been corrected and further details about this finding can be found in section 6.

We also found a number of members who showed as having service before 1 April 2014 and 1 April 2008 but not the pension and automatic lump sum elements we were expecting to see. In all of the exceptions found, the pension output was correct because the earlier service either related to a member who had joined after 31 March 2008 and transferred their earlier service into the Scheme to purchase a 60th service credit or a member who joined after 31 March 2014 and had transferred their earlier service into the Scheme to purchase an earned pension credit. As these were the correct outcomes for this tranche of membership no action was required as the routine had produced the correct output.

In all other cases tested the expected outcome was produced and a final salary pension or automatic lump sum was output on the expected accrual rate.

The final check performed was to ensure that for members over normal pension age, the routine added the requisite late retirement uplift to the final salary pension and any automatic lump sum built by reference to the relevant late retirement increase factor and the number of days by which the member exceeded their normal pension age. The targeted testing employed to this group of members showed that the correct amount of late retirement increase was being calculated and output.

Additional pension

Additional pension details are held in a contracts screen and the amount of additional pension bought is calculated by taking the service or pension to be bought and working out the proportion bought by reference to the number of years and days elapsed in the total contract length for which contributions have been paid.

There are four main methods that can be used to increase a member's Scheme benefits:

- Added years – extra service is bought by the member at either a 60th or 80th accrual
- Additional Regular Contributions – extra pension is bought by the member

- Additional Pension Contributions – extra pension is bought by the member
- Augmentation – extra service at a 60th accrual or extra pension is bought by the employer

Although exception testing identified three members whose pension records contained a data error, the routine employed produced the correct outputs for the type of additional pension recorded as being held. The data for all ongoing additional pension contracts was reconciled with payroll in April when there was a factor change which resulted in the contribution rates changing for members paying additional regular contributions and additional pension contributions.

Total CARE / final salary pension built at end of the Scheme year

The total pension built at the end of the Scheme year is determined by adding or subtracting the various pension elements received during the Scheme year to the opening position.

The opening position for CARE pension is the CARE pension that was built up by the beginning of the Scheme year inclusive of any applicable late retirement increase. For final salary pension and any attaching automatic lump sum, the opening position is determined by applying the final salary pay earned during the Scheme year to the pensionable service built before 1 April 2014 times the appropriate accrual rate inclusive of any applicable late retirement increase. The routine then adds or subtracts the pension element from either the CARE or final salary pension or the automatic lump sum in line with the table below:

Pension element	Add or subtract	CARE pension	Final salary pension
Main pension built	Add	✓	✗
50/50 pension built	Add	✓	✗
Extra pension bought	Add	✓	✓
Transfer credit in year	Add	✓	✓
Pension sharing debit	Subtract	✓	✓
Scheme Pays debit	Subtract	✓	✓
Automatic lump sum	-	✗	✓
Debit on lump sum	Subtract	✗	✓

A variety of members were tested ensuring that each element used in the routine was tested. The results of these tests showed that the expected total pension and automatic lump sum produced by the routine was correct for all members tested.

Total pension built by normal pension age

This is derived from the pension built by the end of the Scheme year plus the relevant accrual rate for the period to normal pension age on the annualised CARE pay the member received and any late retirement increase which may be built on the final salary pension and automatic lump sum. The relevant CARE accrual rate of 1/49th or 1/98th depended on which section of the Scheme the member was in at 31 March 2019.

Additionally, if the member is under normal pension age at 31 March 2019, the routine will add the requisite late retirement uplift to the final salary pension and any automatic lump sum built by reference to the relevant late retirement increase factor and the number of days elapsed between the date the member reaches age 65 and normal pension age.

We chose our test groups based on a range of dates of birth and length of pensionable service.

Where the test group included members under normal pension age, the routine correctly projected forward the extra CARE pension the member could build. Additionally, the late retirement increase on any final salary pension, whether built on a 80th or 60th accrual, was correctly calculated, as was any late retirement increase on the automatic lump sum.

Where the members were over normal pension age the routine correctly output the message that this section was not applicable to the member as they had passed the Scheme's normal pension age.

Members who joined the Scheme during the Scheme year 2018/19 were also tested and the projections to normal pension age correctly used the member's annualised CARE pay to determine the extra CARE pension the member could build.

Death in service lump sum

The death in service lump sum is calculated as three times the member's assumed pensionable pay (APP). APP is calculated on a three month or 12 week annualised average of the CARE pay a member receives but for the purposes of the annual benefit statements, instead of using APP, we use the annualised CARE pay a member receives as it is broadly equivalent to APP.

Long service, short service (including new joiners in the Scheme year 2018/19), full-time, part-time and term-time members were tested and all produced the expected outcome i.e. the death in service lump sum quoted equalled three times the annualised CARE pay that had been reported for the member.

Lifetime allowance

The lifetime allowance used is determined as 20 times pension plus any automatic lump entitlement the member may have. The annual benefit statement shows the percentage of lifetime allowance used as at the date of the statement and as at normal pension age.

The routine for both of these calculations was tested through sampling and throughout the sample taken the percentage of lifetime allowance used was correctly based on the pension and automatic lump sum reported as held at 31 March 2019 and at the member's normal pension age.

Survivor benefits

8.1 Survivor benefits are determined by reference to the member's CARE pension built by 31 March 2019 (if the member is over normal pension age) or projected to normal pension age (if the member is under normal pension age) as well as the final salary pension built by 31 March 2019 excluding any late retirement uplifts.

A range of members with final salary benefits and/or CARE pension were tested and the routine correctly determined the proportion of the member's pension that should count towards the member's survivor's pension for all members tested.

Tolerance tests run

Four tolerance tests were run to test the veracity of the data output used in the annual benefits statements. These tests were designed to ensure that the level of benefits being quoted were reasonable and commensurate with the member's profile.

Pensionable pay – CARE Pay v Final Pay

We ran a comparison to determine if the difference between the CARE pay and final salary pay provided was reasonable and reflective of the member's normal working pattern. We identified 12 cases where we felt the pay reported should be queried with the Scheme employer because the difference between the CARE pay and the final salary pay did not appear to be consistent with or could not be explained by the end of year data provided or the data held in the member's record. Annual benefit statements will be produced for these members once the data queries have been adequately answered.

Low & high total pension built up as at 31 March 2019

We tested the level of benefits being quoted to see if they were reasonable and commensurate with the member's length of pensionable service and earnings. Sample testing within the target groups of low and high total pension entitlements confirmed that, in general, low entitlements were linked to members who had joined the Scheme during 2018/19 or who were in receipt of low pensionable pay; high entitlements were linked to members with high pensionable pay and/or long service.

Pension growth for members under normal pension age

As the annual benefit statements do not make any allowance for increases in final pay between the date of the statement and the date the member reaches normal pension age, the main driver for pension benefits to increase during this period is expected to be due to future CARE pension accrual. Future CARE pension accrual is projected on the basis of the member's saving behaviour as at the date of the statement. So if a member is in the Main section at 31 March 2019, the projection will assume all future service will be in the Main section and vice versa.

Consequently, we would expect to see little growth in the pension between 31 March 2019 and normal pension age for any member who was low waged or who was close to their normal pension age.

For younger members we would expect to see larger pension growth between 31 March 2019 and normal pension age due to the longer period they are expected to remain contributing to the Scheme. If the member is in the Main section then the pensions growth is expected to be more pronounced.

Similarly, for high earners in the Main section we would expect to see larger pension growth between 31 March 2019 and normal pension age.

Sample testing within the target groups of large and small differences in CARE pension entitlement produced the outcomes we were expecting.

Final salary pension and automatic lump sum

The normal pension age for final salary benefits is age 65 and the projections to normal pension age on the annual benefit statement is to State Pension age or, if later, age 65. Consequently, where the member is under age 65 at 31 March 2019 we would expect the value of the final salary benefits showing at 31 March 2019 to be lower than the final salary benefits at normal pension age as the final salary benefits projected to normal pension age should include late retirement increases.

The reason for this is because the projection to normal pension age is based on the normal pension age under the current Scheme regulations and not the member's 65th birthday, which is the normal retirement date for the final salary pension. For this tranche of member the normal pension age is equal to the member's State Pension age which will always be over age 65. This will result in increases building up from the member's 65th birthday because the final salary pension, which is due payment on normal terms from the member's 65th birthday, is being projected to start payment from the member's State Pension age.

The test to compare final salary pension and lump sum at normal pension age against final salary pension and lump sum built by 31 March 2019 showed that the benefits quoted at normal pension age were higher and that the difference was attributable to late retirement increases.

Exception tests run

Only the key exception test results have been covered in this section. A full breakdown of the exception tests run, the findings of these tests and actions taken can be found in appendix 3.

Presence of correct pension elements

Tests were run to ensure that a final salary pension and automatic lump sum was present for members who held pensionable service before 1 April 2008. Four exceptions were found where an automatic lump sum was output when none should be present. Three of these exceptions related to members who were granted an augmentation, by their employer, to their 60th service; the action taken to correct these records is detailed in section 6. The final exception related to a member who had an incorrect benefit code attached to their service line which caused the calculation routine to treat the service as 80th service instead of 60th service. This member's pension record and the data used to populate the annual benefit statement have been corrected.

For members with pensionable service before 1 April 2014 a check was done to ensure that a final salary pension was held. Two exceptions requiring action were found; both related to members who opted into the Scheme in 2013 and who were set up as zero hour contractors. The first of the members was actually in full-time employment at the time of opting in and paid pension contributions from their date of joining; this member's pension record and the data used to populate the annual benefit statement has been corrected. The data error for the second member has been referred back to the employer as it is unclear from the information held on the member's record as to how much of the member's service between 1 February 2013 and 31 March 2014 should be treated as pensionable.

For members with service after 31 March 2014 a check was done to ensure that a CARE pension element was held. There were no exceptions requiring any remedial action.

Divorce debits

Please refer to section 4 of this report.

Scheme Pays debits

Please refer to section 5 of this report.

9. Statements that could not be issued

There were a number of members for whom an annual benefit statement could not be issued at the time of writing this report. However, as we will continue to issue statements to members where outstanding enquiries with Scheme employers are answered or the cases in backlog are cleared, the actual numbers not issued by 31 August 2019 will be confirmed on 2 September. We will also confirm the activity planned to clear the backlog and issue the statements to members.

Members who are entitled to an annual benefit statement and for whom we are unable to issue a statement to will be notified in writing during the week commencing 2 September. These members will be advised of the reason as to why it was not possible to issue a statement to them and when we would expect to be in a position to issue their statement to them.

10. Summary

We believe that this report and its appendices contain the confirmation sought by the Scheme Manager that:

- a robust process was in place to control the data received from Scheme employers and test the quality of the data received
- the data used in the calculations to generate the data output to the annual benefit statements was tested for accuracy
- the calculation routines used to populate annual benefit statements were tested; and
- corrections were made where errors were identified in the data inputs used or the calculation routines used to generate the Scheme benefits that were output to annual benefit statements.

The tests which were run:

- against the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements; and
- on the calculation routines that were used to produce the outputs showing on the annual benefits statements

Means that the benefits statements issued for the Scheme year 2018/19 accurately reflect the entitlements that the members have in the Scheme.

By combining targeted and random sampling with tolerance and exception testing, issues, which might otherwise have gone undetected, were identified. For example, two out of ten members recorded as zero hour contractors with no reckonable pensionable service before 1 April 2014 were identified under the exception testing performed as being due reckonable pensionable service.

Additionally exception testing helped to confirm that calculation routines were working as expected. For example, councillors who continued in pensionable service after 31 March 2014 had their pensionable service calculated using the correct benefit structure; final salary 80th accrual.

Finally, where unexpected results were found which could be indicative of a systemic error, such as the number of pension debits recorded, a full and thorough investigation was conducted to verify the integrity of the data used.

Capita People Solutions Division

Remediation Plan

Capita Employee Solutions July 2019

Prepared by:	**Iain Gray**
Date:	**August 2019**
Version	**Final**
Status	**Ready for sign off**

1. Executive Summary

The contract between London Borough of Barnet Council (LBB) and Capita commenced on 1st October 2013, and following five months of work to ensure operational readiness, which included the move of data from Barnet's in-house administration function, Capita commenced Pension Administration activities from their Darlington site on 1st March 2014.

This Improvement plan has been developed in partnership between Capita and LBB and represents a joint vision of how the Scheme will be managed going forward cognisant of current TPR challenges which require immediate remediation.

In order that confidence be restored in the Capita Service and Administration capabilities, the plan will also look to build around the values and behaviours expected by LBB in their partnership with Capita. Cases and issues will be handled with integrity, honesty, impartiality and objectivity and those involved in administering the LBB scheme will work with pride, passion, pace and professionalism. In other words, effective analysis and evidence will be at the heart of decision making, communications will be open and truthful, there will be a continuous drive to improve the service delivered and the needs of customers will be at the centre of all that is done.

It should be noted this document should be read in conjunction with Appendix A- LBB Remediation Plan which has the deadlines for all actions, owners and up to date status.

2. The Pensions Regulator (TPR) Remediation Activity

2.1 Data Quality & Completeness

Issue

At the point of moving the data to Capita there was little activity undertaken pertaining to data quality or cleanse so there is a high likelihood of either missing or erroneous historic sets from this point in time. Over the years the data has become further out of sync as Employers have failed to send Capita amendments as they make changes to their own data sets.

In order to improve these interactions between Employers and Capita, a Fund Administration Strategy was rolled out to employers (as agreed by the Local Pension Board) at the end of 2017. This defined the timescales around notification of key information and activities to Capita.

However, it is evident from the already completed data analysis work, and via annual data capture processes that support creation of the Annual Benefit Statement (ABS) that employers have not necessarily sent us what they should have done.

Whilst Capita have chased for items like starters / leaver forms where these are marked on the data set received from employers it is clear that this process requires far more rigour and control.

During 2018 Capita cleansed Common Data and improved legacy/current data sets, and the current work in flight is to improve Conditional Data sets focussing on 'High' risk areas ahead of the Scheme Valuation.

For the purpose of this paper, Phase 1 refers to the data cleanse exercise in respect of the data to 31st March 2018 with Phase 2 representing the data to 31st March 2019 and key to the triennial valuation.

Whilst current data remediation activity will satisfy the requirements necessary to utilise the Hymans Brain Portal, ahead of the Scheme triennial valuation, more needs done to avoid future recurrence.

Actions- progress, deadlines and responsibility will be monitored actively in appendix A

- 2.1.1 Phase 1 and 2 of Conditional data cleanse plan as supplied to TPR by LBB on 4th January 2019 to be completed by 31 August 2019.
- 2.1.2 Run member records, to 31st March 2019, through the Hymans validation portal, and cleanse any associated critical errors ahead of the scheme valuation by 31st July 2019. At point of time therefore Hymans data is independent and current
- 2.1.3. Reasonable endeavours are being made to explore the feasibility of a further Conditional Data run incorporating member data to 31st March 2019 as requested by LBB

- 2.1.4. Monthly Data Collection & Reconciliation processes will be adopted as per section 3 of this report. Implementation plans will commence by 31 August.
- 2.1.5 Fully compliant Monthly Data Collection & Reconciliation processes in respect of all employers to be in place by 31 March 2020.
- 2.1.6 Capita to produce a Data Improvement Plan in respect of ongoing data improvement initiatives post August 2019.

2.2 Admission Agreements & Bonds

Issue

When a new employer joins the Fund's pool an admission agreement should be signed with employers. Typically, these require the employer to provide a bond to the Fund to reduce the risk regarding nonpayment of contributions. A cessation agreement should also be agreed once an employer leaves the Fund's pool. It was identified that there were a number of employers for whom admission agreements or cessation agreements are required or in other instances where bonds have expired and need replaced.

In this scenario, Capita will supply LBB with the necessary data in a timely manner which will then facilitate a more controlled approach to managing the Bond status.

Actions

- 2.2.1 Capita and LBB have jointly agreed the revised process for managing admission agreements and bonds, both from a technical and operational standpoint, with amendments incorporated and SLA's in place to support provision of data.
- 2.2.2 Capita to provide a single point of contact to coordinate the data provision (financial and membership).

2.3 Aged Casework

Issue

Over a period of time a backlog has built up within the Operations team supporting LBB. This has largely been driven by an increasing number of third-party pending cases and higher than normal attrition resulting in a loss of significant experience. Additionally, a focus needs to be placed upon right sized resourcing in order to manage the peaks and troughs which has not been as focussed as it should have been.

Actions

- 2.3.1 A full analysis of outstanding work is currently in train and due to be completed by 1st July 2019.
- 2.3.2 Following analysis a detailed recovery plan will be created to include resource levels, throughput, quality, process training and ultimately will be displayed in a burndown chart. This will be in place by 8th July.
- 2.3.3 The plan will then be managed tightly to deliver on milestones and targets with weekly reporting set up to articulate progress.
- 2.3.4 A full breakdown of all outstanding work, including that suspended with “third parties” be produced and passed to LBB. Following analysis, specific action may be necessary to expedite sensitive cases.

2.4 Annual Benefit Statements 2019

Issue

Scheme managers of all defined benefit schemes are required to issue "benefit information statements" to active members. This requirement is met with the production and despatch of an Annual Benefit Statement (ABS) to all eligible members.

Benefit information statement must include a description of the benefits earned by members in respect of their pensionable service and such other information as Treasury directions may specify including information regarding members and survivors' benefits and death in service benefits, the amount of the member's pensionable remuneration and the date on which pensionable service started.

LGPS Regulations state that pension schemes must issue annual statements to members by the deadline of 31st August each year. Along with this deadline schemes must also ensure that the statements issued reflect an accurate position of the members benefits in the scheme.

Following the deadline in 2018 Capita confirmed that 420 statements had not been issued by the deadline of 31st August. This position was confirmed to The Pensions Regulator (TPR) on 18th October 2018.

As part of LBB's response to TPR in January 2019, an appendix was enclosed which detailed conditional data errors, however, this was not reflective of the actual position at that point in time. The numbers pertaining to missing or erroneous data were in fact those that were originally identified following the first conditional data run in 2017.

In order that we are able to reassure TPR of the data quality and the impact on ABS, Capita have undertaken a full retrospective review and can demonstrate that missing data had been sourced for those records highlighted in the original spreadsheet.

Additionally, any missing data, critical to the production of ABS, causes that record to fail and is flagged as an exception which then needs rectification. Given this, as well as the low levels of member contact post issue, would suggest concerns around the issuance of erroneous ABS are unfounded.

Capita are committed to issue accurate statements to all eligible members for service up to 31st March 2019 by 31st August 2019 and demonstrate robust internal controls to ensure the quality of data extracted to populate the statements

Actions

- 2.4.1 2019 ABS plan being reviewed bi-weekly, but needs to include TPR requirement for a process to ensure quality of calculations for data going into the statements (Appendix 1)
- 2.4.2 Standing agenda item on fortnightly calls with LBB Finance
- 2.4.3 Capita Pensions team to carry out minimum of 3% sample (following audit recommendation to carry out 2%)
- 2.4.4 Capita pensions team have engaged with Capita Technical team to carry out additional quality checks for deferred members
- 2.4.5 Summary of checks by Technical team to be provided to LBB for deferred members
- 2.4.6 Capita pensions team have engaged with Capita Technical team to carry out additional quality checks for active members
- 2.4.7 Summary of checks by Technical team to be provided to LBB for active members
- 2.4.8 2018 Annual Benefit data to be rerun through Conditional Data set to demonstrate to TPR that data was clean
- 2.4.9 Post issue of the ABS, a process will be put in place to deal with member queries which will be subject to full root cause analysis in order to quickly assess size and scale.
- 2.4.10 Report on any issues raised by members and their resolution to be prepared for the Regulator
- 2.4.11 Review the way the system holds NRA to verify accuracy of this field

2.5 Contributions Monitoring

Issue

Employers are required to deduct both employee and employer contributions in accordance with the scheme regulations and the Fund's Rates and Adjustment Certificate. These are required to be paid over monthly. The Capita Finance team are responsible for monitoring the receipt of contributions, including whether all contributions were received, whether contributions were deducted and paid to the Fund at the correct rate and whether contributions were received on time. Capita's process for receiving information from employers does not check whether contributions were deducted or paid at the correct rate.

Whilst Capita will make every effort to carry out validations, the onus, and ultimately responsibility for elimination of data errors is with employers. That said, a revised process was implemented in June 2019 whereby confirmation was provided to LBB that contributions had been paid to the scheme in a timely manner.

Actions

- 2.5.1 Monthly confirmation of contributions started in June 2019
- 2.5.2 Analytics to support the datasets to be provided along with exception reports during August 2019 and this will additionally facilitate closure of open Audit actions
- 2.5.3 Mi in early stages of development with target date of August 2019 for initial cut

2.6 Independent Assurance Report

Being regulated by the Financial Conduct Authority, Capita Employee Benefits ("the company") is required to comply with The Internal Capital Adequacy Assessment Process ("ICAAP") requirements.

The ICAAP is:

The overall governance and oversight framework

The operational framework which links strategy formulation, risk appetite, stress testing and capital management

An intrinsic part of the overall risk management and control environment embedded within the company

Comprehensive, risk based and forward looking

Intrinsic to the business as usual environment within the company

Documented, owned and approved by the Company's Board.

The ICAAP reviews the financial resources, risks and plans of the company and based on this makes an assessment of the capital requirements (as defined under Pillar I and Pillar II) over a 5-year forecast period. This includes a review of the Company's risks and risk management process. The requirement to hold regulatory capital, ring-fences the company from the Group.

Overall, after taking account of the stress testing undertaken, there is forecast to be a surplus, sufficient to cover the capital requirements throughout the 5-year forecast period.

Our latest ICAAP was reviewed and approved in the January 2019 Board meeting.

2.7 Localised Assurance Processes

Regulatory Staff Training & Awareness

All staff are required to undertake compulsory training and testing on a rolling basis. This includes Breach Awareness, Data Protection, Anti-Money Laundering, Treating Customers Fairly, Information Security, Social Awareness, Complaint Handling and Financial Crime. The Diversity Awareness training is to be completed on a three yearly cycle. Regulated Staff within the business must also complete additional training to ensure the company is compliant with regulatory requirements. The number

of courses and their content are reviewed and refreshed. Completion lists are maintained in respect of staff completion rates. Focussed lists are shared monthly with Operations Leadership detailing completion rates of staff in their areas of responsibility.

Business Continuity

Business Continuity Plans (BCPs) are documented and reviewed annually by the business owners and respective regional Business Continuity Manager responsible for each office and are held centrally by the Business Continuity Management Team. Annual testing of the BCPs and critical infrastructure is carried out by the Capita Insurance and Benefits Services (CIBS) Business Continuity Disaster Recovery team. Scope and Post Test Reports are documented by the Business Continuity and Disaster Recovery Managers which include any actions to remediate for improving business preparedness.

3. Data Integrity

As highlighted previously, significant changes in the way Data is captured are required to improve the data quality for members and employers within the LBB Scheme. Both Capita and LBB are keen to ensure that contributions data and service and salary information is correct and reconciles to the payments made each month and as such the proposal is to utilise Monthly Data Collection (MDC) functionality to;

- To improve the employer experience
- Improve data quality and data cleanse.

CEBs wider experience of implementing MDC solutions within the public sector demonstrates that this initiative will be highly beneficial. It is envisaged that this benefit would be brought about due to the following:

The MDC extract file specification now details the business rules quite clearly which should help reduce the likelihood of errors occurring in the first place:

Service and salary data will be produced via automated extracts from MDC Employers' payroll systems which should mean that errors are minimised.

MDC allows Employers to capture all recent changes rather than Employers having to look through historic records to update the Annual Service Return. this will in turn smooth the workload for Employers which will be easier to resource for

MDC moves the identification of data errors as close as possible to the point of origination which in turn leads to earlier rectification and faster changes to behaviour going forwards.

This leads to:

- Accurate and up to date Member information
- Development of real time information functionality.
- MDC can give Members better visibility of more up to date and accurate information on line.

A monthly data collection will allow Members to:

View an accurate presentation of their benefits via the LBB website as service and salary data would be uploaded monthly if their Employer has adopted MDC. Currently, pension information shown on the website is always out of date

The proposal is therefore to work collegiately with LBB to introduce the MDC processes in the short term and then to further enhance the process through introduction of Monthly Data reconciliations.

4. Complaints & Breaches

4.1 Complaints

4.1.1 It is vital that a more robust mechanism for tracking complaints be introduced which will ensure clarity of actions being undertaken, by whom and by when. To support this activity a Sharepoint site will be created and will hold details of those complaints currently in an “open” state.

4.1.2 Additionally, a weekly extract of all “open” complaints on the Complaints database will be provided to LLB.

4.1.3 Monthly Status reports will be developed and circulated in order that Root Cause and Trend analysis be undertaken which will ultimately drive process improvements.

These reports will include the following detail;

Summary Position

Outstanding Complaints

Closed Complaints

Root Cause & Trend Analysis

Regulated Complaints

Compensation Dashboard

4.1.4 The complaints handling process proposed by LLB will be reviewed and implemented once agreed.

4.2 Breaches

4.2.1 As with Complaints, there is a need to increase the levels of visibility of Breaches so the Sharepoint site will be widened to include breaches

4.2.2 Monthly Status reports will be enhanced to include MI on Breaches which will detail:

Summary Position

Rolling 12 month summary

Regulatory Obligations

Root Cause Analysis

5. Administration

Issue

To support such an important Partner as LBB it is vital that the support of the administrative team within Capita is consistent and delivers superb levels of service. As such the Capita Pensions team housed in Darlington will undertake the following activity;

Education tailored to LBB

5.1 We will start to build a "Knowledgepool" specifically focussed on the activities of LBB and this will be used as a precursor to all process training received by the team. All existing team members will receive this training too to ensure consistency in knowledge levels.

Target Completion Date: December 2019

Resource Planning

5.2 Improved Resource Planning activity will be rolled out to ensure all known Scheme Events are well handled and any impact on day to day operational activity through strain is mitigated.

5.3 Additionally, enhanced workflow will be delivered in order that management have better visibility of bottlenecks and potential impacts on service delivery.

Target Completion Date: September 2019

Telephony

5.4 Through adoption of our new Telephony Model we will look to develop the current levels of knowledge within our Contact function in order that they are seem as exemplar and result in increased confidence of both LBB and it's members.

Target Completion Date: December 2019

Professional Qualifications

5.5 As part of our inward investment in staff and to support the credibility of the Capita / LBB Partnership, we will incentivise staff to undertake professional qualifications Target

Completion Date: Ongoing

Continuous Improvement

5.6 All LBB processes within the Capita Administration function will be subject to a full review with a particular focus placed on cross group processes to ensure expedient and accurate processing. Adoption of a "Live Lab" approach will facilitate traction without detrimental impact on day to day activities.
Target Completion Date: September 2019

6. Operational Escalations

The undernoted Escalation Matrix is proposed in order we strengthen lines of communication, relationships and to ensure that appropriate action is taken if any issues are experienced.

Capita	London Borough of Barnet
Nigel Purveur Managing Director Capita People Solutions	**John Hooton** Leader of the Council London Borough of Barnet
Iain Gray Client Services Director Capita People Solutions	**Anisa Darr** Finance Director (Section 151 Officer) London Borough of Barnet
Paul Faulkner Senior Operations Manager Capita People Solutions	**Nigel Keogh / George Bruce** Pensions Consultants London Borough of Barnet

7. Reporting

In order that there is absolute transparency around all aspects of the Capita / LBB relationship and in addition to those reports already highlighted as being produced, the following report relating to work positions will be created:

7.1 A fortnightly work update will be provided for a period of three months. This will complement the weekly update and an example template is attached and includes a suggested RAG status.

7.2 With client consent, following a three month period of fortnightly reporting this will be replaced with monthly reporting.

7.3 Work volumes do fluctuate on a daily basis and it is possible that cases may fail SLA on a particular day, but are recovered within 5 working days. The work update will include reasons for any red status reported. Once the position has escalated beyond one period of red status, the work update report will include an assessment of any systemic reasons for the red status along with a work recovery plan.

Example of regular reporting Dashboard

RAG Status Key

Items	RED	AMBER	GREEN
Previous Weeks SLA Attainment	<90%	90% TO 94.99%	>95%
Open Fails Workable	30+	11 to 29	<10
Open Fails Workable >1 Week	10+	1 to 10	0
Open Fails with Third Party	40+	20 to 39	<10

Escalation

Scenario	Report by	Report to
1 Period of red status on SLA attainment or fails	Paul Faulkner	Nigel Keogh
2 Consecutive periods of red status on SLA attainment or fails	Iain Gray	Anisa Darr

4 Consecutive periods of red status on SLA attainment or fails	Nigel Purveur	John Hooton

Appendix 1 – Remediation plan action tracker

LBB REMEDIATION PLAN ACTIONS

Rem Category	Rem Plan Ref	Action No.	Action	Original Deadline	Capita amended deadline	Further detail	BRAG	Action Owner	Update 31.07	Update 06.08	Update 28.08
Data Quality & Completeness	2.1	1	Complete phases 1 and 2 of conditional data cleanse plan (TPR submitted Jan plan)	31-Aug		To be evidenced via submission of the excel plan		DD	Once 2019 data is loaded on 31072019 a comparison can be made against original Cond data errors to determine how any remaining errors can be cleaned by 31-08-19. Unless a new Conditional report is agreed to be ran. Timeframe/ costs will have to be agreed with the Leeds office.	Update super seceded by TPR response	
Data Quality & Completeness	2.1	2	Run member records through Hymans Brain Portal and cleanse	31-Jul		Cleansing in progress and on track		DD	On target for 31-07-2019. Admin continue to clean as many critical errors as possible and leavers JRs on track	Uploaded on time- reupload today based on further data cleanse work	Scheme data uploaded to Brain portal on 31st July and critical errors were addressed.
Data Quality & Completeness	2.1	3	Explore feasibility of further conditional data run	31-Aug	31-Oct			DD	See 2.1/1	Conditional data score is required for Scheme return - data request to Leeds will be made.	A new conditional data report for 2019 is scheduled as part of the annual Scheme Return in Oct 19.
Data Quality & Completeness	2.1	4	Commence monthly data collection and reconciliation implementation	31-Aug		Liaison required with client to implement		DD/KB	Internal meeting to be arranged to determine how monthly contribution data collection can be utilised for both Finance and Operational purposes.		Initial internal meeting to review and agree process has been held and review of proposed process continues.
Data Quality & Completeness	2.1	5	Fully compliant process with 2.1..4	31.03.20				DD/KB		Added action for full compliance	
Admission Agreements & Bonds	2.2	1	Capita and LBB have agreed a revised admission/bond process	July		In place		DD/SS	Evidence that process in place required	Admin require a review of the process with LBB - w/c 19-08-19.	Agreed with LBB that DD/SS will produce an updated list and timetable for completion by 06-09-19
Admission Agreements & Bonds	2.2	2	Capita to provide single point of contact to coordinate data provision	31-Jul		Individual now confirmed		DD	Provisionally Sophie Scullion	Resource confirmed as Diane Dixon	
Aged Casework	2.3	1	Full analysis of outstanding work required	01-Jul	30-Aug	Age profile of overdue cases produced		DD		Revised dates based on realistic delivery - backlog clearance commenced w/c 29-07-2019	
Aged Casework	2.3	2	Detailed recovery plan to be created	08-Jul	06-Sep	Not yet fully documented. Prioritisation required		DD		Revised dates based on realistic delivery - agree date	
Aged Casework	2.3	3	Recovery plan weekly progress updates to be provided	15-Jul	13-Sep	Template being developed by Governance Manager		DD		Revised dates based on realistic delivery - agree date if not sooner	Format of weekly reporting agreed, reports issued w/c 1908-19
Aged Casework	2.3	4	Full breakdown of o/s work incl 3rd party to be provided to LBB	09-Aug	13-Sep			DD		Revised dates based on realistic delivery - agree date if not sooner	Agree date of 13-09-19
Annual Benefit Statements 2019	2.4	1	2019 ABS plan to be reviewed bi-weekly	Ongoing		Being progressed		DD	Ongoing		ABS activity completed
Annual Benefit Statements 2019	2.4	2	2019 ABS plan to be a standing item on fortnightly LBB Finance call	Ongoing		Being progressed		DD	Ongoing		ABS activity completed
Annual Benefit Statements 2019	2.4	3	Capita admin team to carry out 3% minimum sample check	31-Aug		Being progressed		DD	Ongoing		ABS activity completed
Annual Benefit Statements 2019	2.4	4	Capita Technical to carry out additional ABS data quality review post production- Deferred	31-Aug		Complete		CC	Ongoing		ABS activity completed
Annual Benefit Statements 2019	2.4	5	Summary of checks by Technical provided to LBB Finance- deferred	12-Aug				CC	Completed for Deferred members. Active data to be supplied in tranches by 2nd Aug	Initial draft summary supplied - final to follow.	ABS activity completed
Annual Benefit Statements 2019	2.4	6	Capita Technical to carry out additional ABS data quality review post production- actives	15-Aug				CC		Receiving data 08/08 to the technical team-technical will then commence work as resource has been confirmed	ABS activity completed
Annual Benefit Statements 2019	2.4	7	Summary of checks by Technical provided to LBB Finance- actives	15-Aug				CC		Final report on checks by Technical to LBB finance by 19-08-2019 - Deferreds. Actives report date tbc.	ABS activity completed
Annual Benefit Statements 2019	2.4	8	2018 ABS data to be rerun through conditional data set to prove quality to TPR	31-Aug		Is this still required?		Leeds?		To be discussed in 08.08 meeting on value - see 2.1	
Annual Benefit Statements 2019	2.4	9	Post issue of ABS, process to be put in place to deal with member queries incl root cause	01-Sep	30-Sep	Update required		DD		Amended to give member time to log queries	Process on track to be in place from 02-09-2019
Annual Benefit Statements 2019	2.4	10	Report on any issues raised by members and the resolution to be prepared for the regulator	30/09 and then bi weekly				DD			Process on track to be in place from 02-09-2019
Annual Benefit Statements 2019	2.4	11	Review the system routine in regards to calculation of NRA								
Contributions Monitoring	2.5	1	Monthly confirmation of contributions to commence from June	30-Jun		Done		KB		Process implemented but all employers currently not complying	
Contributions Monitoring	2.5	2	Analytics to support data set to be provided with exception reports, closing Audit actions	31-Aug		Provided as part of July Appendix		KB			

Contributions Monitoring	2.5	3	Develop MI to report on monthly contribution monitoring and provide initial cut	31-Aug		Update required		KB			
Complaints	4.1	1	A SharePoint site will be created to hold details of open complaints	July		Created in July		AS			Current status of open complaints reported in weekly update report
Complaints	4.1	2	SharePoint data to be sent weekly to LBB for 4.1.1	Ongoing				AS			Format of weekly complaints report agreed
Complaints	4.1	3	Monthly status report will be developed and circulated	Ongoing	31-Aug	Update required		MR			
Complaints	4.1.	4	CSG to review and implement LBB proposed complaint handling process	30-Aug				PF			
Breaches	4.2	1	Shareport site will be widened to include Breaches	31-Jul		Update required		AS			
Breaches	4.2	2	Monthly status reports will be enhanced to include Breaches information	31-Jul	31-Aug	See 4.1.3 for update		MR			
Administration	5	1	Build a knowledge pool of LBB activities to support all process training	31-Dec		Needs to be reviewed after August 2019		MR			
Administration	5	2	Resource planning activity to be rolled out to manage scheme events and impact on BAU	31-Aug	30-Sep			DD			New work management program initative commenced w/c 19.08.19
Administration	5	3	Enhanced version of workflow software to be delivered for greater visibility of bottlenecks	31-Aug	30-Sep			DD			New work management program initative commenced w/c 19.08.19
Administration	5	4	Develop the levels of knowledge in the Contact Centre and increase LBB confidence	31-Dec		Needs to be reviewed after August 2019		AK	Telephony responsibility: Angela Knowles changed from MR		
Administration	5	5	Incentivise staff to undertake professional qualifications	Ongoing		Update required		IG			
Administration	5	6	All LBB processes to be fully reviewed , focussing on cross group activity, adopting a "Live Lab" approach	30-Sep	30-Nov	Revised date- as the work is very time consuming and will need to focus on reduction plan		DD			
Reporting	7	1	A fortnightly work update to be provided for 3 months	June-Aug		Currently occurring		MR/PF			
Reporting	7	2	With client consent, after 3 months this will be replaced with monthly reporting	09-Sep				MR/PF			
Reporting	7	3	Work items that fail SLA on a particular day will be recovered within 5 working days			Date to be set after work completed on 2.3.3		MR			
Internal Control Improvements	8	1	Awaiting details of criminal proceedings and trial date for fraud case	Ongoing		Still awaited		MR			
Internal Control Improvements	8	2	Capita Control Enhancements tabled at July Risk and Compliance Committee	July		Done		MR			
Internal Control Improvements	8	3	Capita to provide note of recommendation and actions taken from the review of controls	16-Aug				PF			
Internal Control Improvements	8	4	KPMG internal controls review to be performed annually								

AGENDA ITEM 11

Pension Fund Committee

9 September 2019

Title	**Annual Investment Performance Report to 31 March 2019**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Investment Performance Comparison Appendix B – Hyman Robertson Comments Appendix C – London Pension Fund Performance Appendix D – PIRC Annual Commentary
Officer Contact Details	George Bruce, Head of Treasury, George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report requests that the Pension Fund Committee give consideration of the performance of the Barnet fund compared with other local authorities, including other London Borough's over periods from 1 to 30 years based on analysis undertaken by PIRC.

Officers Recommendations

That the Pension Fund Committee note the performance of the Pension Fund as recorded in the PIRC universe.

1. WHY THIS REPORT IS NEEDED

1.1 Investment returns achieved by each fund are a consequence of the strategy over many years and the selection of fund managers. Each pension fund will have its own requirements that drive strategy and comparison of post event returns overlooks individual scheme requirements. However, as these returns are widely shared it is informative to understand the drivers of relative performance compared with other local authorities.

1.2 Appendix 1 provides a one-page summary of Barnet's returns at asset class level from one to thirty years compared with the local authority average. Hymans Robertson's comments on the relative returns of Barnet are attached (appendix 2).

1.3 The total fund returns at the foot of the table are not encouraging and suggest poor strategy and / or manager selection. Barnet's relatively poor performance is highlighted by page 4 of appendix 2 (London comparison) in which we are the lowest returning fund over 3, 5 and 10 years. However, the picture at the total fund level is very different from that at individual asset class level. Within appendix 1, each asset class for which Barnet has out-performed the universe is highlighted and this includes all the asset classes in which we were invested over five and ten years. Thus, manager selection decisions have been positive for the fund over many years. The one blip at asset class level is total equities over the last year (impacting on the last three years), in which the return of the RAFI portfolio managed by L&G was 1.86% compared with the return on their developed equity (ex UK) portfolio of 12.12%. This is not a manager issue but reflects the relative performance of value equities (stocks that trade at a lower price relative to its fundamentals, such as dividends, earnings, or sales) which are over represented in RAFI compared with the market index. In addition, the currency hedging employed in the RAFI portfolio has tempered returns given the depreciation in sterling that has occurred of recent – this also accounts for some of the RAFI fund underperformance relative to equity market cap index.

1.4 The contradiction between overall fund return and individual asset class returns is due to Barnet's weighting in diversified growth funds and listed equities and the performance of these asset class. DGF's are shown in 1, 3 and 5-year time periods as generating a return below every other asset class; a remarkable achievement given that they comprise allocations to all these asset classes. Barnet's allocation to DGF's is 20% higher than the universe average as at 31 March 2019 and was even greater in previous years. By maintaining a high allocation to DGF's, Barnet has a lower allocation to other higher returning asset classes e.g. listed equity.

1.5 The Committee has already recognised that DGF's have not delivered on their promised returns and are switching the allocation to property, private equity and emerging market equity. Appendix 1 demonstrates a strong performance history for property and private equity (and infrastructure, which is a recent addition to the Barnet portfolio).

1.6 The key points from PIRC's London report (appendix 2) are that a high equity weighting has benefited funds, while low volatility strategies (DGF's) have not. The Annual Report notes that investments returns are well ahead of both inflation and actuarial assumptions. Other comments of note are the flow of money towards Ethical, Green & Environmental investment and the relative poor performance last year of emerging market investments (which may indicate a good time to buy).

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Financial Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.' One of these meetings to be the annual review, at which the representative from the council's performance management organisation attends to comment on the relative performance of the fund managers'.

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 Risk Management

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. A fund manager can be replaced if performance is considered inadequate.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable

5.9 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – PIRC Performance Summary – As at 31 March 2019

	As at 31 March 2019 [PIRC Definitions]		One year			three years			five years			ten years			thirty years		
	Barnet Allocation %	Universe Allocation	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %
Total Equity	39	55	6.1	7.3	87	12.3	13.0	68	10.1	9.9	44	13.4	12.9	28	9.0	8.8	32
Diversified Growth	23	3	3.0	0.3	10	3.6	3.2	56	3.6	3.1	50						
Bonds	31	19	3.4	3.7	46	5.3	5.4	46	5.9	5.8	48	6.9	6.8	59	7.3	7.6	61
Property	0	9		6.1			7.2			9.5			8.7			7.5	
Alternatives (total)			17.0	10.3	11		10.8			10.5			8.1				
Private Equity	0	5		15.3			15.1			14.7			10.2				
Infrastructure	5	3		11.7			11.9			11.0							
Other alt		3															
Cash	2	3															
Total Fund	100	100	5.1	6.6	82	7.9	10.5	97	6.7	8.8	95	8.4	10.7	98	7.6	8.4	98

Appendix B

Hymans Robertson Comments – PIRC Annual Report

We are comfortable with the components of the Fund, particularly considering the plans to evolve them and invest in other asset classes in the near future. With regards to equities, we believe the FTSE RAFI (currency hedged) global equity allocation, which accounts for 50% of the LGIM passive equity (20% of total Fund assets), is largely responsible for 12 months equity underperformance relative to peers. Despite this, we are comfortable with the allocation on a long-term basis, but think it should be discussed to remind the Committee of its purpose in the portfolio. We would not expect any significant differences in performance over the long-term between the RAFI global equity fund and a market-cap global equity fund, however, during the last 12 months RAFI has underperformed market-cap materially (further comments below). Further details below.

- Barnet achieved 5.1% over 12 months to 31 March 2019, ranking in the 82nd percentile among its peers

- Focussing on 12 months total Fund performance the low ranking is due to a number of factors, including:
    - the high allocation to DGFs (third highest among peers), which performed poorly over the 12 months. However, we note the Committee's intention to reduce the allocation significantly over the short term. The Fund's DGFs also performed in the top decile among peers.
    - the high allocation to credit (third highest among peers), which also performed poorly (relative to equity/alts/property) over the 12 months. Despite the poor performance of credit, the Fund's return was above the median for credit and there is strong strategic backing for this allocation, notably its diversifying qualities.
    - nil allocation to property, which contributed to underperformance relative to peers, as the median return for property was greater than the total Fund return.
    - the underperformance of the passive equity allocation with LGIM (87th percentile relative to peers, which may include some actively-managed equity mandates). We believe this to be the primary cause for the Fund's relative underperformance, which is discussed further in the next bullet

- Focussing on Fund equity performance, the LGIM passive equity is split into two parts: 50% in World market-cap indices (currency unhedged) and 50% in RAFI AW 3000 fundamentally-weighted indices (currency hedged).
    - 12 months performance for the World market-cap (currency unhedged) was 10.6%. The underlying components include a c.5% allocation to EM equity, which only returned 1.6% over the period. Despite this, we are comfortable with the allocation to EM equity as a diversifying equity allocation with lots of upside potential over the Long term.
    - 12 months performance for the RAFI (currency hedged) was only 1.9%. This underperformance relative to market-cap is down to two factors: (i) the GBP hedging, which detracted c. 4% from performance, and (ii) the 'value' tilt of the RAFI mandate, which is responsible for c. 4% of underperformance versus a style-agnostic comparable index. Despite the

c. 4% drag on performance, we are comfortable with the currency hedging arrangements as a risk reduction characteristic for the Fund (i.e., reduced volatility relative to our GBP liabilities). We discuss the reasoning for the underperformance of the 'value' tilt in the next bullet.

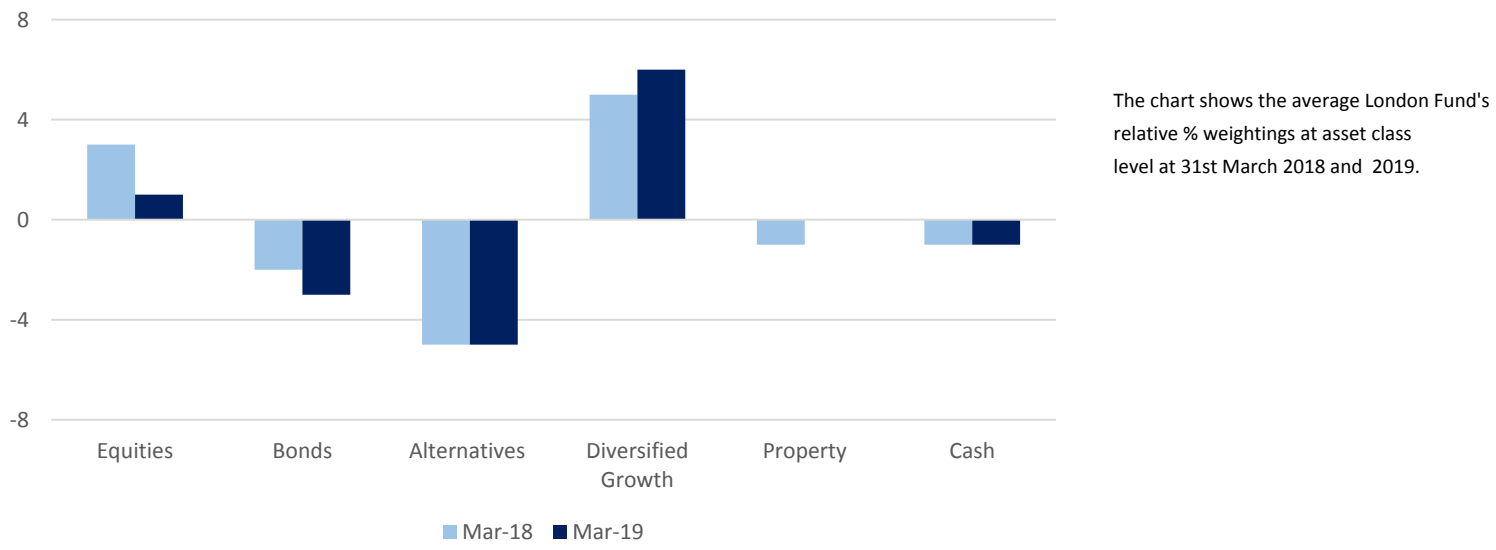
- 'Value' equity has underperformed other equity styles over the medium term for a number of reasons, which are listed below. Despite the underperformance, we are comfortable with the allocation as a style-diversifier for the Fund's equity allocation, as well as having a strong conviction in its ability to outperform over the long term.
    - 'Value' tends to outperform when bond yields and interest rate expectations rise, which hasn't been the case over the last few years
    - 'Value' sectors like financials have underperformed in this cycle following the financial crisis. Oil & gas suffered owing to the oil price collapse and shale boom and basic resources from misallocation of capital during the China growth boom. Traditional growth sectors (where RAFI is underweight) have performed well owing to structural factors (e.g. technology)
    - Over the last year, RAFI's underperformance has also been driven by the underweight allocation to healthcare and technology (the strongest performing sectors), along with the underweight allocation relative to market-cap benchmarks to both the US market and the narrow group of Tech stocks that have led for much of this time.

London Pension Funds Performance - Latest Year

- In the latest year the London Funds produced an aggregate return of 6.5%.
- This was in line with the Universe average, ranking 45th percentile.
- Within this group there was a wide range of returns achieved-from 3.4% (ranking 100th percentile) to 10.9% (2nd percentile).

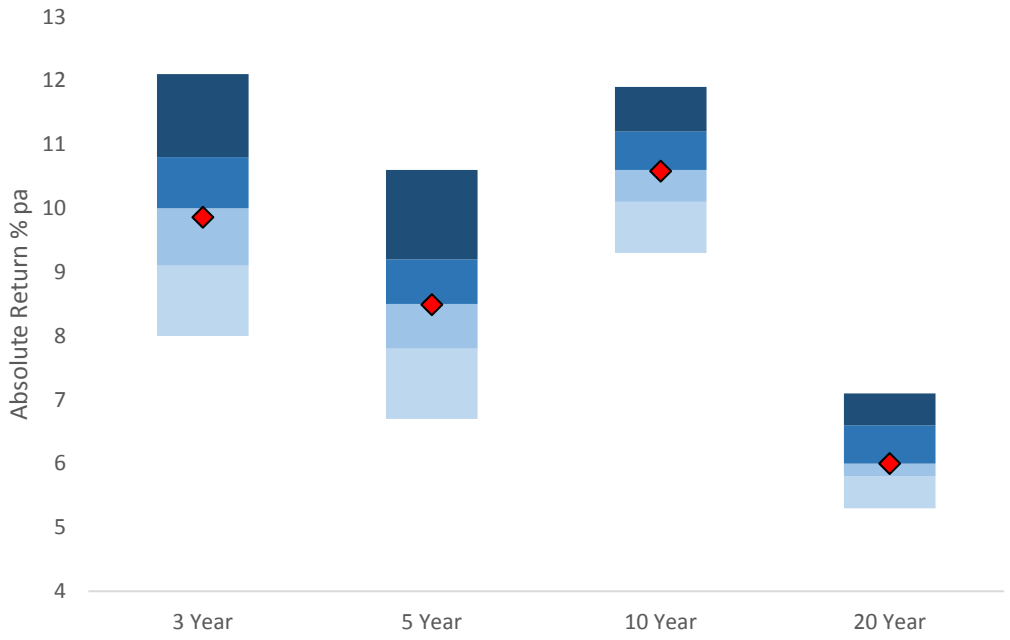
Asset Allocation

- The London Funds on average have a higher allocation to diversified growth than most of their peers and a lower exposure to most other assets.
- During the year there was little change in overall asset allocation.
- This allocation had a negative impact on performance last year due to the poor performance from Diversified Growth assets.



Longer Term Returns

• The London Funds have performed slightly below average over all periods.
• The range of results is wider across the recent past because of the large difference in returns between equities and absolute return/ diversified growth strategies.
• Funds with a high equity allocation will have performed substantially beter than those funds who have invested a significant proportion of assets in these less volatile strategies.
• Over the last ten years the best performing London fund produced a return 5.3%p.a. above that from the poorest performing - this represents a cumulative shortfall of 67%.



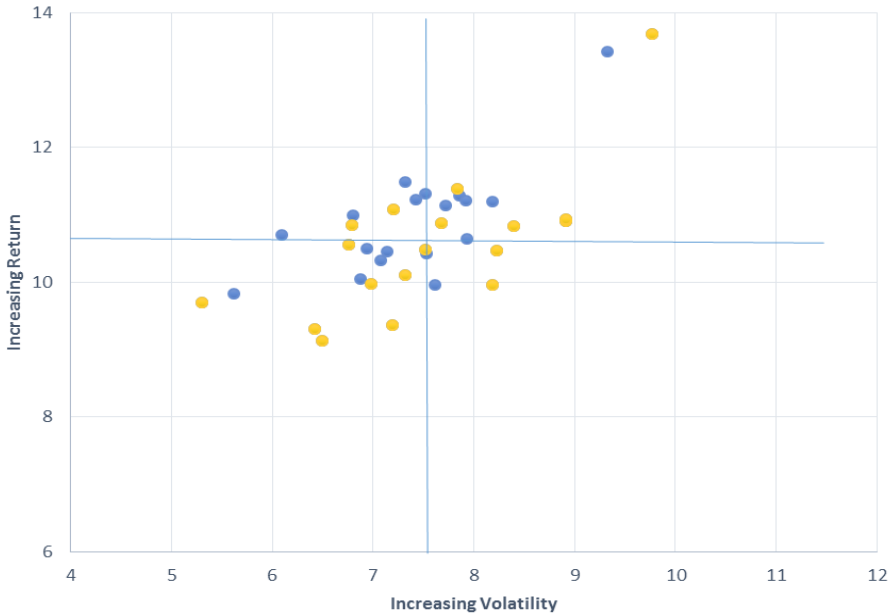
Universe Average		10.5	8.8	10.7	6.4
London Funds Average		9.9	8.5	10.6	6.0
Range:	Best	13.5	11.9	13.7	7.9
	Worst	7.9	6.7	8.4	4.7
	Difference	*5.6*	*5.2*	*5.3*	*3.2*

Risk and Return

• Over the last ten years the London Funds (shown as orange dots) were evenly distributed within the risk / return space.
• The Funds with lower than average volatility achieved lower than average returns and those that accepted more volatility outperformed.
• Over the last five years the volatility hasn't been so neatly rewarded. We have seen the Funds becoming generally more volatile relative to others but for some funds this has not resulted in additional return.

Last Five Years (% p.a.)

Last Ten Years (% p.a.)



We do not have monthly data for some funds for the full periods so cannot calculate their volatility results.

The charts show all funds (blue dots) and London funds (orange dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.
The blue lines are the median results. These divide the funds into quadrants. Most funds would prefer to be in the top left quadrant.

Fund Returns and Rankings

• The best performing funds (highlighted in orange) have been Kensington & Chelsea and Bromley.
• Whilst Brent has been the worst performing over the longer term, recent performance has improved.
• Barnet and Havering are the lowest performing funds over more recent periods - both have been adversely impacted by their high commitment to Diversified Growth.

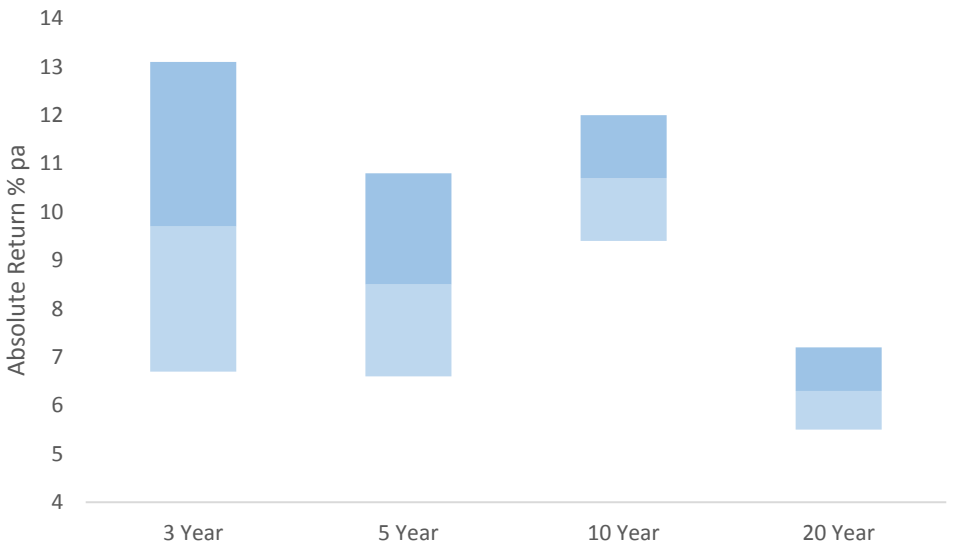
	1 Year	*Rank*	3 Yrs (% p.a.)	*Rank*	5 Yrs (% p.a.)	*Rank*	10 Yrs (% p.a.)	*Rank*	20 Yrs (% p.a.)	*Rank*
Barking and Dagenham	5.2	*76*	9.4	*69*	8.5	*54*	9.4	*93*	5.1	*96*
Barnet Pension Fund	5.1	*82*	7.9	*97*	6.7	*95*	8.4	*98*	5.5	*91*
Bexley Pension Fund	7.4	*21*	10.4	*39*	9.4	*18*	11.5	*11*	7.1	*6*
Brent Pension Fund	7.2	*26*	8.5	*86*	7.6	*80*	9.1	*97*	4.7	*98*
Bromley Pension Fund	8.0	*11*	13.5	*1*	11.6	*2*	13.7	*1*	7.9	*1*
Camden Pension Fund	4.9	*92*	9.9	*58*	7.2	*92*	10.2	*68*	6.0	*55*
City of London Corporation Pension Fund	7.6	*13*	9.8	*60*	7.9	*69*	10.4	*64*		
Ealing Pension Fund	4.8	*94*	9.7	*63*	7.7	*77*	10.8	*41*	6.6	*23*
Enfield Pension Fund	7.3	*24*	8.8	*82*	8.5	*49*	9.7	*86*	6.2	*43*
Greenwich Pension Fund	4.3	*97*	8.2	*92*	7.2	*94*	10.0	*80*	5.3	*94*
Hackney Pension Fund	5.7	*68*	9.3	*73*	7.5	*85*	9.6	*89*	5.7	*85*
Hammersmith and Fulham	5.0	*87*	8.2	*90*	7.8	*76*	10.6	*52*	6.2	*40*
Haringey Pension Fund	5.7	*66*	11.5	*10*	10.1	*12*	11.4	*16*	5.7	*77*
Harrow Pension Fund	6.0	*57*	11.0	*18*	9.1	*28*	11.6	*9*	6.4	*34*
Havering Pension Fund	3.4	*100*	8.3	*87*	7.4	*89*	10.5	*57*	5.4	*93*
Hillingdon Pension Fund	5.2	*78*	8.6	*84*	7.5	*84*	10.0	*79*		
Hounslow Pension Fund	8.6	*8*	10.5	*34*	7.8	*76*	10.5	*59*	6.3	*36*
Islington Pension Fund	7.0	*32*	9.0	*78*	7.6	*82*	10.1	*72*	5.5	*89*
Kensington and Chelsea	10.9	*2*	13.2	*2*	11.9	*1*				
Kingston upon Thames	6.2	*50*	9.9	*57*	9.0	*30*	10.9	*36*	6.0	*51*
Lambeth Pension Fund	4.5	*95*	8.1	*94*						
Lewisham Pension Fund	7.2	*28*	10.8	*26*	9.7	*16*	10.9	*38*	5.7	*76*
Merton Pension Fund	7.8	*13*	10.4	*37*	8.3	*63*	10.9	*37*	6.4	*32*
Newham Pension Fund	9.0	*3*	10.0	*53*	10.1	*10*	10.9	*39*	5.9	*57*
Redbridge Pension Fund	5.7	*63*	8.9	*79*	7.9	*67*	9.3	*95*	5.7	*81*
Southwark Pension Fund	9.0	*5*	10.7	*31*	10.3	*7*	11.1	*30*	6.5	*30*
Sutton Pension Fund	6.4	*48*	10.0	*50*	8.7	*41*				
Tower Hamlets Pension Fund	6.5	*45*	10.9	*21*	8.5	*51*	10.1	*73*	5.9	*62*
Waltham Forest Pension Fund	6.9	*36*	8.0	*95*	6.5	*97*	10.9	*34*	5.9	*59*
Wandsworth & Richmond Fund	6.7	*42*	11.0	*16*	9.2	*25*	11.9	*5*	6.7	*19*
Westminster Pension Fund	6.1	*53*	10.4	*36*	8.5	*57*				
Universe Weighted Average	6.6		10.5		8.8		10.7		6.4	
London Weighted Average	**6.5**		**9.9**		**8.5**		**10.6**		**6.0**	

Best performing
Worst performing

Benchmark Performance

• The chart shows the benchmark returns for the London funds over the longer term with the centre line being the median.
• It is clear to see how wide these expected returns have been, particularly over the shorter term.
• Given the Benchmark (which reflects the strategy of the Fund) wil be the key driver of return, some funds were expecting returns well below those targetted by their peers. Given the similar liability profiles of the funds this is something worth reviewing.

Range of Benchmark Results (% p.a.)



Performance Relative to Benchmark

Range of Relative Results (% p.a.)

	3 Year	5 Year	10 Year	20 Year
Worst	-1.6	-1.4	-1.5	-1.0
Median	-0.2	-0.4	-0.2	-0.2
Best	1.6	0.8	1.7	0.9

• Over all periods most funds have failed to achieve benchmark performance.
• The distribution of relative returns is even across all periods.
• The funds that have performed best relative to their benchmark also tend to be at the top end of the total performance rankings- they have managed to implement a successful asset allocation and pick outperforming managers.
• Conversely the funds that have performed poorly relative to their benchmark tend to be at the lower end of the total performance rankings - they have suffered from a lower returning strategy compounded by underperforming managers.

PIRC measures the performance of all London funds with the exception of Croydon who have yet to supply data to the service.

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PIRC

LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

ANNUAL REPORT 2018/19

- 2018/19 Local Authority Universe results
- Long term results and trends
- Comments and analysis

INTRODUCTION

WELCOME TO the 2018/19 PIRC Local Authority Pension Performance Analytics Annual Review. Who would have anticipated funds would return more than 10% p.a. over these last three years between revaluations? The continued excellent performance from the investments, despite economic and political volatility, should make balancing the actuarial books a little easier than funds may have been expecting.

We are delighted to be able to publish this year's peer group results, based on a Universe of 64 funds with a value of £193bn. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar one of the London Pool, with funds from all other pools except Central. We look forward to this number continuing to grow as more funds come on board.

This year we welcome the Isle of Wight, Cumbria and Hackney schemes into the Universe.

This has been a year of substantial activity across the funds as the move into pooling began to materialise in earnest. We saw a continuation of the move between passive managers that had begun the year previously followed by a movement of funds across most pools into the active global equity offerings.

These changes have tended to be at portfolio level with fund strategic allocation remaining broadly unchanged. This is not surprising given the impending triennial revaluation in England and Wales.

If you need to know anything more please just ask.

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CONTENTS

2018-19 UNIVERSE RESULTS

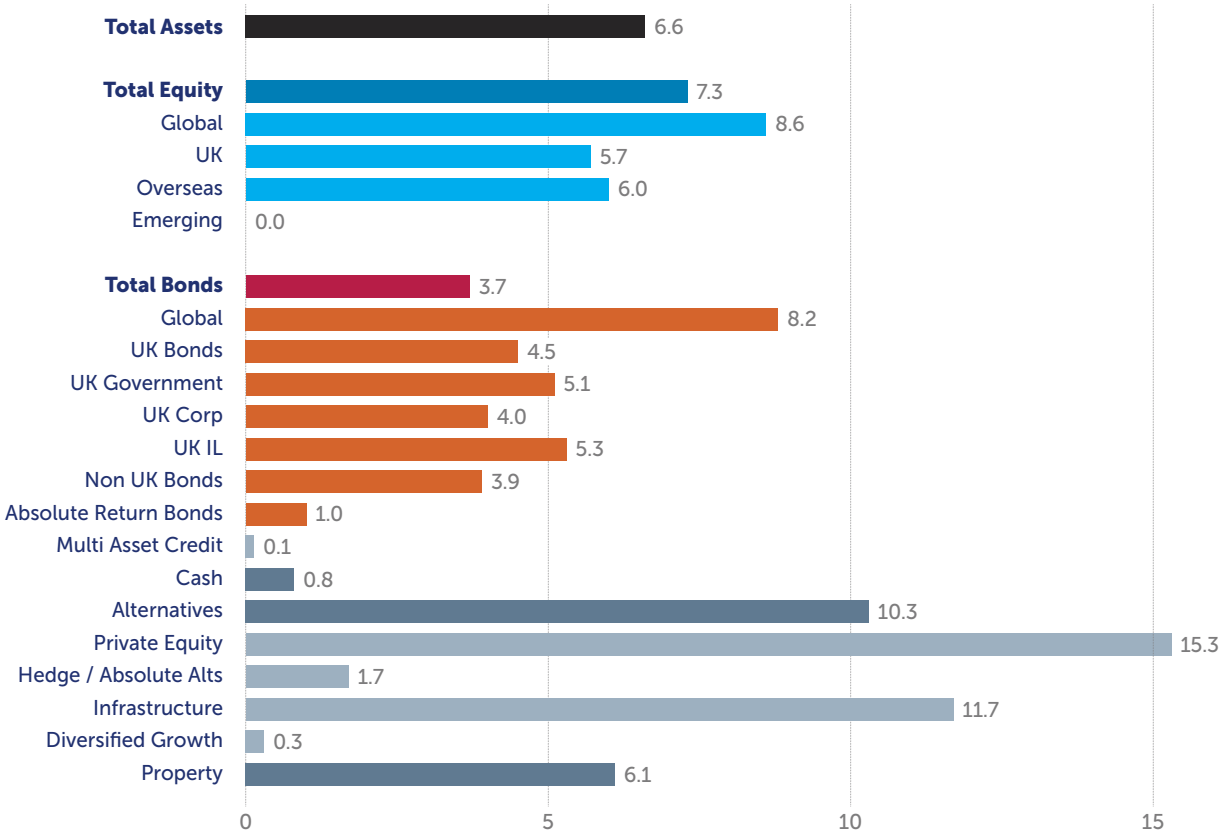
- A year of global political uncertainty, a burgeoning trade war between the US and China and no resolution to the Brexit issue. Despite this, investment returns, though volatile, were positive and the average Local Authority fund produced a return of almost 7% for the year.

- This was slightly below the long term average of around 8% p.a. but this return was ahead of inflation and actuarial assumptions.

- Asset class returns were tightly grouped with bonds, property and equities returning 4%, 6%, and 7% respectively for the year.

- Private equity was the best performing asset class at 15% followed by infrastructure at 12%. Absolute return investments all performed relatively poorly averaging only 1% for the year.

Figure 1: 2018/19 performance



There were many headwinds facing investors over the last year. Unease over historically high levels of markets, political uncertainty, the escalating trade war between the US and China and the ongoing unresolved issues around how, or even if, the UK would leave Europe all impacted sentiment and made for a volatile year. Despite this, over the last twelve months the average Local Authority pension fund has returned a very respectable 6.6%. While this return is below the 30 year average of 8.4% p.a. it is well ahead of inflation and of actuarial assumptions which are currently around 4% p.a.

Figure 1 shows asset class returns were tightly grouped. Bonds, property and equities returned 4%, 6%, and 7% respectively for the year.

As in the previous year when assets were also tightly grouped, strategic asset allocation had less of an impact than usual and so the range of individual fund returns was narrow with most funds returning between 5% and 8% for the year.

Unusually, there were bigger differences within asset classes than between them. With equities emerging markets returned an average of 0% whilst global equity portfolios delivered close to 9%. Likewise within alternative investments funds achieved an average return of 10% but there was a wide range of returns delivered. Funds that held high levels of private equity and infrastructure would have seen double digit returns from these assets whilst those invested in absolute return investments were likely to have experienced returns of less than 2% for the year.

Within bonds, traditional index based investment strategies produced returns well ahead of those delivered by absolute return or multi asset strategies.

These figures reinforce the importance of clearly understood and implemented decision making at all levels within the asset hierarchy.

Performance relative to fund specific benchmarks

After strongly outperforming their own benchmarks in 2017/18 many funds saw a sharp reversal of fortune and in the latest year two thirds of funds failed to match their benchmark return. Of the third that outperformed the relative results were modest and only a handful added more than 1%. The key reasons for the relatively poor performance were disappointing returns from many active equity managers and below target returns from many absolute return investments.

Only a third of funds managed to outperform their strategic benchmark last year.

What did well in the latest year?

Private equity continued to perform strongly with a return of 15% for the year. It has outperformed quoted equity in the medium term but the outperformance is not yet visible over the longer term.

Infrastructure too performed extremely well.

US equities (the key component of global equity funds) continued their extended run of excellent performance, assisted by the ongoing strengthening of the US Dollar.

Ethical / Green / Environmental investment did well in garnering funds. These strategies saw a large influx of money across a range of funds. This was focussed principally in global equity portfolios where we saw a net inflow of £3 billion. There was also an inflow to green investment within new infrastructure allocations across a number of funds.

What fared less well?

Emerging market equities after being the best performing equity area in the previous year, fared particularly badly this year, failing to deliver a positive return.

With an average return of 1% **absolute return** funds performed relatively poorly across a variety of strategies and asset types.

Equity protection, taken out by some funds as insurance against possible market falls was not required and the cost had a drag on performance for the year.

Continued low interest rates meant holding any level of **cash** continued to have a negative impact on return.

Figure 2: Asset allocation - latest year

% allocation	31/3/2018	31/3/2019	Change
Equities	55	55	-
UK	15	14	-1
Overseas	40	41	1
Bonds	18	19	1
UK	8	8	-
Global	4	4	-
Overseas	1	0	-1
Absolute return	5	5	-
Multi-Asset Credit		1	1
Cash	3	3	-
Alternatives	11	11	-
Private equity	5	5	-
Infrastructure	3	3	-
Absolute Return	3	3	-
Diversified growth	4	3	-1
Property	9	9	-

What has changed over the year?

After the dramatic reduction in equity exposure as funds moved to lower risk strategies through 2017/18 the strategic asset allocation changes in the latest year were modest as can be seen in Figure 2. However beneath that a number of changes emerged and trends, that had started in previous years continued:

Move into **'green' investments** across a range of funds and through both active and passively managed investments.

Continued move into **enhanced index/smart beta** investments including low volatility.

Multi-asset credit gained ground.

A continued move away from index based bench-marks towards **absolute return benchmarks** within alternative assets and within bond allocations.

An increase in the level of **passive equity investment**

Continuation of the **switches across index tracking managers** as funds take advantage of reduced fees negotiated at pool level.

2018/19 IN DETAIL

Asset allocation

The equity allocation remained unchanged but within this the move away from UK equities continued. The majority of funds now have no specific UK equity allocation, investing instead through global equity investments. It has been interesting to note that a number of pools are currently not offering a UK equity vehicle and so, by default, this move looks certain to continue.

Structures remained broadly unchanged as funds wait for the results of the 2019 actuarial revaluations.

The new money within the bond/income allocation is generally being invested into absolute return type investments – whether they be bond based, multi-asset credit, private debt or property income funds. The bulk of the investment in index based strategies (the UK Bond, global and overseas allocation in Figure 2 above) is invested passively.

Within alternatives there has been a continued flow of funds into infrastructure and we expect this to grow as allocations are drawn down and the Pool infrastructure offerings become funded.

Diversified growth allocation reduced. One of the bigger players in this market Aberdeen Standard, saw a number of funds disinvest on the back of poor performance whilst other funds, perhaps prompted by the disappointing returns of the asset class as a whole, have switched to alternative products, such as multi-asset credit.

Cash exposure increased slightly over the year. Some of this may be the result of worries about the level of the equity markets but it is also the result of a number of funds being in the process of transition.

Risk reduction

In 2017/18 we saw funds de-risk to some degree. The key manifestation was the move from equities to less 'risky' assets such as diversified growth / absolute return portfolios which target lower than equity returns but at substantially lower than equity volatility. This trend didn't continue through the latest year. It would seem that funds that had not already implemented such strategies are waiting until there is clarity about ingoing funding levels and costs from the latest actuarial revaluations which should be complete towards the end of this year.

We continued to see limited use of equity protection strategies. These are effectively derivative trades where a fund insures itself against a large fall in the equity market. Because equity markets did not fall in the way many had anticipated, and indeed rose strongly, this insurance was not called upon. The cost of the strategy became a drag on performance for those funds that had employed it in the latest year.

Income generation

As more funds continue to move close to or into a cash flow negative situation (where the payments of pensions out of the fund is greater than the contribution inflow) there has been increased focus on income generating assets. Whilst equities generate income this income is usually immediately reinvested so funds are looking more closely at

More funds continue to move close to or into a cash flow negative situation.

alternative sources. We continue to see increased investment into higher yielding, income generating assets such as property, infrastructure and multi-asset credit funds as well as private debt all of which would help to deliver the income required.

Asset performance

Equities

Equities had a torrid time as global markets plunged in the December quarter amidst concern over a global trade war before rebounding in the first calendar quarter of 2019 to deliver positive returns for the year across most regions.

The approach to equity investment varies widely across funds. Most active equity investment is now undertaken through global pooled vehicles benchmarked against global indices that incorporate both developed and emerging markets. Some funds choose to invest in global developed market funds, allowing them to choose a separate manager and a defined allocation to emerging markets.

There has been a significant move into green equity investment strategies.

A declining number of funds maintain a bespoke UK equity allocation managed by a specialist UK equity manager. The increased globalisation of the UK stock market and the relatively poor performance of that market and the active fund managers operating within that space have all been contributory factors to this decline.

Of the funds that run a UK / Overseas equity split rather than invest globally only a small number of still manage their active equity portfolio on a geographical regional basis. These funds tend to be at the larger end of the size range.

Global equities last year returned 8.6% in aggregate. The split of returns can be seen in Figure 4. There is not a consistent approach to passive management within equities either. Whilst some funds invest in a global equity fund most invest against a fund specific global equity allocation. Generally this allocation has a lower exposure to the US market than the major indices and this is reflected by the underperformance of this group relative to the broad market indices.

Figure 3: Global equity returns 2018/19

	% return
Global equity	8.6
Total active	9.4
Total passive	7.4
Bespoke	7.0
Index	11.8
Hedged index	5.7
Enhanced index	7.0

The passive funds tracking global indices performed best last year as can be seen in Figure 3. The funds tracking enhanced indices (RAFI, low volatility etc) delivered lower returns in line with these indices. It will be interesting to follow the relative results of these groups as we have seen increased interest and investment into enhanced index strategies.

Across both active and passive equities we have seen, in this latest year, a move into **green / low carbon / environmental equity** investments. Most funds going down this route are currently investing passively against a market index excluding predefined stocks, or reweighted to reflect particular factors. This has been facilitated by the availability of a range of indices now that cover a wide range of solutions to particular concerns (low carbon, ex fossil fuels, ESG screened etc) which are able to track the main global indices within relatively tight bands. This is a far more balanced approach than simple stock exclusion as funds can implement strategies to meet their environmental guidelines whilst ensuring that return and volatility remain broadly consistent with their previous investment approach.

Other funds are investing actively in vehicles designed to be climate aware with a sustainable focus, usually measured against the standard global indices.

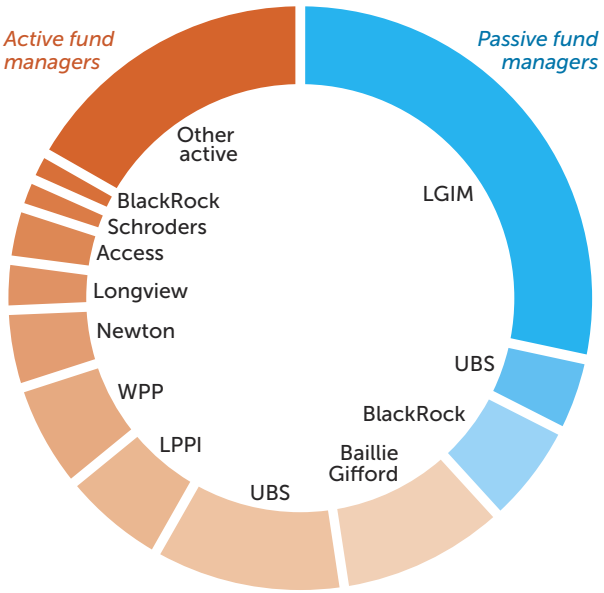
From a level of close to zero a year ago we now see a fifth of the Universe global equity investment by value invested in these types of funds. We will monitor the

performance of this group from next year when we have a full year of data available.

Active global equity managers failed to add value against the index in aggregate this year Baillie Gifford, the largest manager in this group underperformed as did UBS and Schroders whilst of the other main managers Longview and Newton both outperformed the index. The best and worst performers this year were less well known managers. Veritas produced returns of around 18% for the year while Woodward, Hoskins and Natixis Harris all failed to achieve a positive return.

The bulk of global equity money remains with LGIM, UBS and Baillie Gifford as shown in Figure 4.

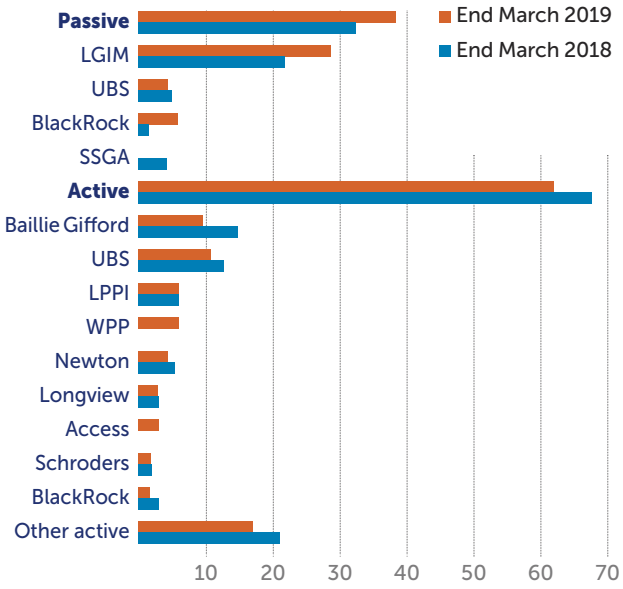
Figure 4: Global equity managers by % value, 31/3/19



If we look at Figure 5 we can see that there has been a continuation of the move towards passive management of global equities and that LGIM has been the major beneficiary of the restructuring brought about through pooling. SSGA which last year was the sixth largest manager of local authority global equities is no longer represented at all.

The move to pooling makes it increasingly more difficult to quantify just who manages what part of the LGPS assets. For instance it appears that Baillie Gifford has seen a substantial reduction in assets under management when, for example, they now manage a sizeable part of one of the two WPP global offerings. We will come back to look at this issue further through the review.

Figure 5: Change in % of global equities under management



The move to pooling makes it increasingly more difficult to quantify just who manages what part of the LGPS assets.

UK Equities

UK Equity performance in the latest year was below the FTSE All Share return of 6.4%. Whilst a quarter of UK equities are managed passively the majority of UK equity portfolios are managed actively and last year the active managers fared poorly with the average actively managed UK equity portfolio returning only 5.7% after fees. Whilst this number is disappointing the real scale of the underperformance can be seen if the internally managed UK equity results are stripped out. Internal UK equity managers performed strongly last year – removing them leaves the external active UK equity managers delivering an average return of only 3.7%, almost 3% behind the index. Majedie (who underperformed last year) remains the most used active manager in this area although this will obviously change as funds move further into the Pool offerings.

Bonds

Bond markets produced small positive returns as can be seen in Figure 6. Those funds that invested in abso-

lute return mandates delivered a return of only 1% this year. Multi-asset credit also performed poorly. Bond portfolios that are managed against market indices performed broadly in line with these benchmarks Most bonds are managed on an active basis and the continued move towards absolute return portfolios (all of which are managed actively) has meant that the level of passive management within this group has declined further in the latest year.

Figure 6: Bond performance relative to market benchmarks

%	Return	Relative to BM
UK Government	5.1	+1.4
UK corporate	4.0	-0.1
UK IL	5.3	-0.2
Global	8.2	+4.0
Absolute return	1.0	-3.5
Multi-asset credit	0.1	-4.4

Alternatives

Alternative investments, as usual, produced a wide range of results measured against a very broad range of targeted outcomes:

Private Equity remains the largest of the 'alternative' assets. It also continues to be the best performing, delivering a return of 15% for the year. Whilst most funds continue to measure this asset against an equity index (or against an equity index with a hurdle) a number of funds are incorporating this within their overall absolute return alternative strategy.

In the latest year **infrastructure** investments also performed extremely well, with funds averaging over 11%. More than half the funds in the Universe now have an investment in this area. A return of between 4% and 6%, either expressed as an absolute or as a percentage over cash is the most common benchmark and we are seeing an increase in green investment within this area.

Absolute return / hedge funds produced a return of 2% for the year, broadly similar to that of diversified growth and absolute return bonds. Whilst there is a broad range of benchmarks used across the group it is encouraging to note the continued move away from a cash only benchmark to the more taxing (and more appropriate) 'cash plus'.

Absolute return investments performed poorly last year, behind benchmarks and below the return of other asset classes.

Diversified growth

This asset saw another relatively disappointing year, delivering an average of 0.3%. Newton was the only manager to outperform its benchmark last year, whilst Ruffer, GMO and Aberdeen Standard failed to achieve positive returns. This continuation of disappointing performance saw a number of funds disinvest from this asset during the year.

Property

Property delivered an average return of 6% for the year, in line with the IPD benchmark. The range of returns was extremely tight with most funds grouped between 4% and 7% for the year.

Over 90% of funds in the Universe now have some property exposure and we saw a widening of the scope of property investing with funds looking at property income investments to include within the bond/income part of their strategy and residential property funds too.

LONGER TERM PERFORMANCE

- Long term performance has been excellent. Funds delivered a positive return in 25 of the last 30 years and delivered an annualised performance of 8.4% p.a. – a return significantly ahead of inflation.

- Whilst larger funds in aggregate have outperformed, the very best performance continues to come about from some of the very smallest schemes.

Performance has been, and remains, extremely strong over the medium and longer term. The thirty year return of 8.4%p.a, is almost 6% p.a. ahead of inflation over the same period. This exceptional level of return will have been reflected in large savings of running invested funds over a pay as you go approach.

Figure 7 shows that there have been only two periods of negative performance in the last thirty years – at the start of the millennium (the bursting of the dot-com bubble) and the global financial crisis of 2008/9. Both periods were followed by strong double-digit returns. The equity 'shocks' that investors are so concerned about mitigating have been infrequent and the reward for holding equities substantial.

Figure 8 shows the average returns achieved across each of the three year actuarial valuation periods together with the average return for the last 30 years. The three year return will have an important impact on funding levels and costs to the participants. This year, with upcoming actuarial revaluations in England and

Figure 7: Long term performance of local authority funds

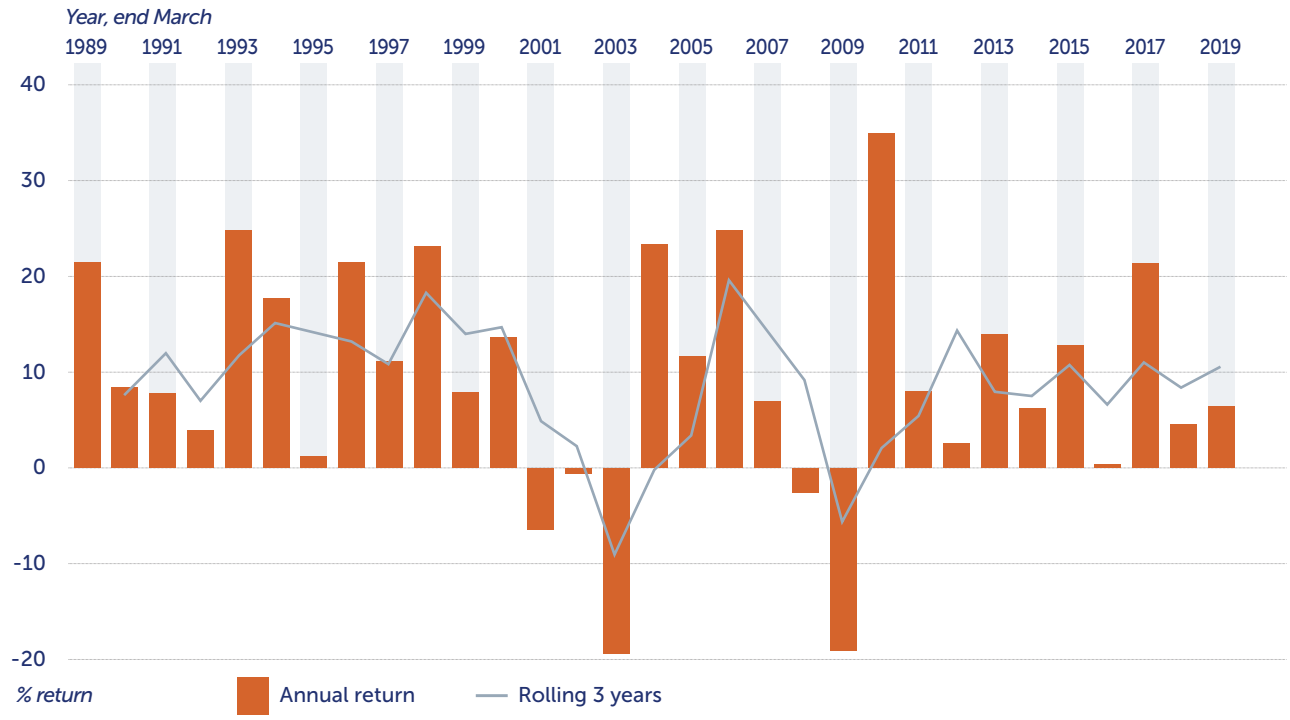
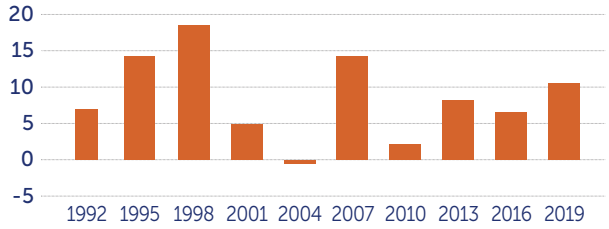


Figure 8: Returns over actuarial revaluation periods

% p.a. returns between actuarial valuation



Wales this return will be under particular scrutiny.

Despite global and domestic UK political and economic uncertainty, investment markets surged ahead over the last three years and most funds have seen fund values grow by around 30% over the period – well ahead of even the most optimistic expectations and actuarial projections. This, combined with flattening mortality data may make this valuation a little less painful than funds had expected.

Figure 9 shows that over the three years the average fund returned 10.5% p.a. and over the ten years returned 10.7% p.a. These results are particularly impressive when viewed in the context of very low single digit inflation over the same period.

Figure 9: Range of results, to 31/3/2019

% p.a.	3yrs	5yrs	10yrs	20yrs	30yrs
Average	**10.5**	**8.8**	**10.7**	**6.4**	**6.4**
Top quartile	10.8	9.2	11.2	6.6	8.5
Median	10.0	8.5	10.6	6.0	8.2
Bottom quartile	9.2	7.8	10.1	5.7	8.0
Interquartile range	*1.6*	*1.5*	*1.2*	*0.9*	*0.5*

The table also shows the range of results – 50% of returns fall between the top and bottom quartile (the interquartile range) and the median is the middle return achieved (regardless of fund size).

The median result is below the average over all periods indicating the relatively strong performance of larger funds in aggregate over their smaller peers. This long term outperformance was one of the key drivers of the pooling initiative.

This result does not reflect the range of results across the smaller funds, a group within which there is a marked dispersion. Indeed over all periods the very best performances have come from some of the smallest funds.

It is interesting just how tightly grouped the returns are over the longer term. Despite a great multitude of managers, strategies and advisers over the last thirty years most local authority schemes produced a return within 0.5% p.a. of their peers.

Asset class performance

Different funds are cutting their assets in different ways. Some are looking at liability matching and growth, others are carving out income generation, whilst others focus on liquidity. This can mean funds could hold the same investment but for different reasons. For instance one fund may include private credit

Asset class performance is becoming increasingly difficult to disentangle as funds become ever more complex.

Figure 10: Longer term performance by asset class, % p.a. to end March 2019

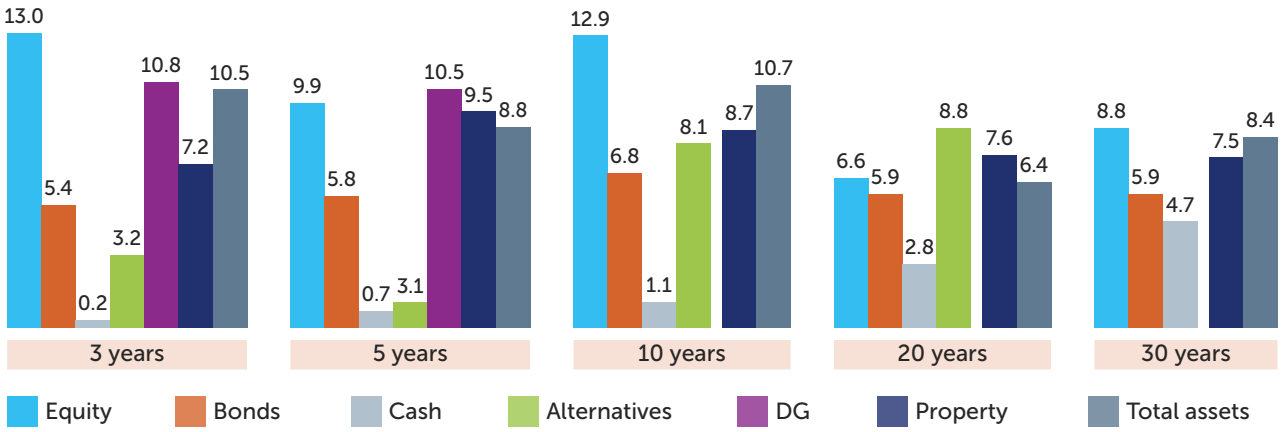
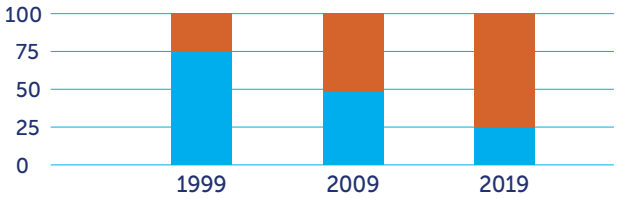


Figure 11: Equity allocation over time, % at end March



	1999	2009	2019
Overseas	26	53	76
UK	74	47	24

within alternatives whilst another may show it under their bond allocation.

Even within asset subclasses, we see funds with markedly different investments and benchmarks as they seek quite different outcomes – infrastructure remains the prime example of this.

Equities

Equities remain the most transparent of the asset classes insofar as most funds have a dedicated equity component benchmarked against a market index (or combination thereof).

In aggregate active global equity managers have not added value over the long term.

The latest year saw a continuation of the long term trend away from domestic equities. As can be seen in Figure 10 the average UK exposure has declined dramatically over the past twenty years. It is now less than a quarter of total equity exposure compared to half ten years ago and three quarters twenty years ago.

Now less than half of funds still retain a separate allocation to UK equities. This separation is largely a historical artefact – funds believed that UK assets were a better match for their UK liabilities and that domestic managers had a better chance of success in outperforming the UK market. This is consistent with a 'home country' asset allocation bias by investors across the world.

Funds that held a relatively high exposure to **UK equities** within their portfolios would have achieved returns below those of their peers in the latest year and over the longer term as UK equities have trailed their overseas peers – shown in Figure 11. Over the last

Figure 12: Longer term equity regional performance

	% p.a. 3 years	5 years	10 years
UK	9.2	5.9	11.5
Overseas	14.1	11.6	13.2
North America	17.0	15.6	16.4
Europe	11.0	8.3	11.6
Japan	13.7	12.2	10.7
Pacific	14.1	9.1	11.9
Emerging	13.3	8.7	10.6

five years the UK equity return has been only half that from overseas markets. This is a combination of both the weakness of the UK market and the weakness of Sterling over much of the period.

Although still ahead over the longer term active UK equity managers have trailed the index over the medium term as can be seen in Figure 12, undermining one of the key arguments for a home bias within fund allocation.

Over the medium term, the overall **global equity** return has been exceptionally strong – double the level of assumptions made by actuaries in their scheme modelling. US equities have outperformed the other major markets over all longer term periods, assisted by the strength of the Dollar.

UK equities have performed relatively poorly when compared to overseas markets over both the short and medium term.

Funds have, in aggregate, failed to add value over the market indices over the medium and longer term as can be seen in Figure 13. Whilst some of the blame for this lies firmly at the door of many active managers

Figure 13: Equity performance relative to indices

	% p.a. to 31/3/19 3 years	5 years	10 years
Global equities	14.3	11.6	13.2
World index	14.4	11.8	13.4
Relative	*0.0*	*-0.2*	*-0.2*
UK equities	9.2	5.9	11.5
FTSE All Share	9.5	6.1	11.1
Relative	*-0.3*	*-0.2*	*0.4*

some of the underperformance has resulted from the costs incurred in changing managers and the opportunity costs incurred from moving managers at the wrong point in their cycle or of holding on to them too long.

The move into pooling is tasked with improving upon these lacklustre results. However at first glance it would appear that some of the structures that are being implemented will find it difficult. We have discussed before the difficulties of complex structures. Funds may feel reassured that the broad diversification will succeed in bringing down volatility (whilst one manager is failing it is hoped another will be excelling). Funds do however have to accept that this reduced volatility may come at a cost and that cost may be the reduced opportunity to substantially outperform the benchmark.

Funds have to accept that this reduced volatility may come at a cost and that cost may be the reduced opportunity to substantially outperform the benchmark.

Around a quarter of funds hold a separate allocation to **emerging markets**, giving them the opportunity to flex their equity risk profile. The long held assumption has been that these markets experience higher volatility than developed markets but that this risk will be rewarded by higher returns. However, the decision to hold emerging markets has not been rewarded over most of the last decade with returns from this area below those delivered by most developed markets.

Bonds

Historically funds held most of their bond exposure within two main investments – **UK Government** (nominal gilts) and **UK Government Index-Linked** securities. These assets were seen broadly as a diversifier for equities and a proxy for scheme liabilities.

Diversification began in the late 1980's as funds started to invest some of their bond allocation overseas and continued in the mid noughties when funds started to seek out the higher returns available from corporate debt. For over a decade the average fund has held more in UK corporate bonds than it does in government gilts.

More recently we have seen funds invest in bond portfolios that are not benchmarked against market indices but which are seeking instead to deliver an absolute level of return (usually defined as Cash plus x%). These absolute return portfolios aspire to tap into better returns from a diversity of issuers, unencumbered by the straightjacket of the machinations of domestic interest rates and manipulated yields (sometimes negative in real terms) that have been available across bond markets in recent years.

We are also seeing some funds allocate some of their strategic bond weighting into multi-asset income / multi-asset credit funds where the manager can invest across a range of assets to achieve a targeted yield or an absolute level of return.

Figure 14: Longer term bond performance

	% p.a. to 31/3/19		
	3 years	5 years	10 years
UK bonds	5.4	5.6	7.2
UK index linked	7.5	8.8	8.7
Overseas	7.5	7.1	6.2
Absolute return	2.9		

Over all periods as can be seen in Figure 14, index-linked gilts have been the best performing of the bond assets assisted by the increased demand from pension funds seeking to match liability cash-flows and by investors concerned about the possibility of rising inflation.

Longer term, funds have outperformed the market indices because of their overweighting to longer dated issues, a sector that has performed well over this period driven in large part by high demand from pension funds trying to buy assets that more closely match their liability profiles almost regardless of price.

Alternatives

As can be seen in Figure 15 the weighting in alternatives has doubled over the last decade to reach the current level of 11% of the average funds' assets. Ten years ago around half of all alternative investment was held within private equity, a percentage that has stayed broadly consistent through the period. However, the investments that funds held ten years ago in active currency and tactical asset allocation funds have largely disap-

Figure 15: Allocation to alternative investments as % of total fund

	2004	2009	2014	2019
Private equity	1	3	4	5
Hedge funds / Absolute alts	0	2	2	3
Infrastructure	0	0	1	3
Other	0	1	0	0

Figure 16: Longer term performance of alternatives

	% p.a. to 31/3/19		
	3 years	5 years	10 years
Private equity	14.5	14.7	10.2
Hedge funds / Absolute alts	4.6	4.4	5.0
Infrastructure	11.8	11.0	-

peared and been replaced with infrastructure, hedge fund and various absolute return strategies instead.

Hedge fund investment increased markedly following the credit crisis as funds sought to reduce equity volatility, peaking in 2011 before falling back, partly on the grounds of disappointing returns and in part, as funds diversified into an increasingly broad and complex, but arguably more transparent, pool of other **absolute return** investments.

Allowing better access for smaller funds to infrastructure investments was one of the key drivers behind pooling.

Infrastructure has only been identified as a distinct component of many funds' strategies in recent years but is becoming increasingly important as funds seek diversified forms of risk and relatively high yields. It now makes up just over a quarter of the total alternative exposure of the average fund. Allowing better access for smaller funds to infrastructure investments was one of the key drivers behind pooling and we expect that the exposure of many funds will increase over the relatively short term as the pool offerings in this area start to draw down funds.

Figure 16 shows the strong results from private equity and infrastructure. Whilst absolute return funds have delivered returns in line with their benchmarks, the return achieved over all periods has been well below the other alternative asset classes.

Diversified Growth funds

These funds make up 3% of the average fund but commitment to this asset is skewed, with over half of all funds having no exposure at all. Over the last five years, these funds returned an average of 3.1% p.a. This level of return is well below that of most other assets. It also remains below the benchmark expectations of many investors in this area. However the returns have been delivered at relatively low volatility. Both the return delivered and the level of volatility have been just over a third of that of equities over the five year period.

Funds have benefited from their long term high commitment to equities.

Property

After its significant fall in value immediately post the global financial crisis in 2008/09 property has recovered well. Although the near term returns trail those of equities, at 7.3% p.a. and 9.6% p.a. over the three and five years respectively, the recent performance has been close to the long term (30 year) average for this area of just below 7.5% p.a.

Whilst we are seeing a small degree of international diversification the vast bulk of property investment remains UK based.

Cash

Any exposure to cash over any of the periods would have reduced overall fund performance. To be fully invested has been a very successful long term strategy.

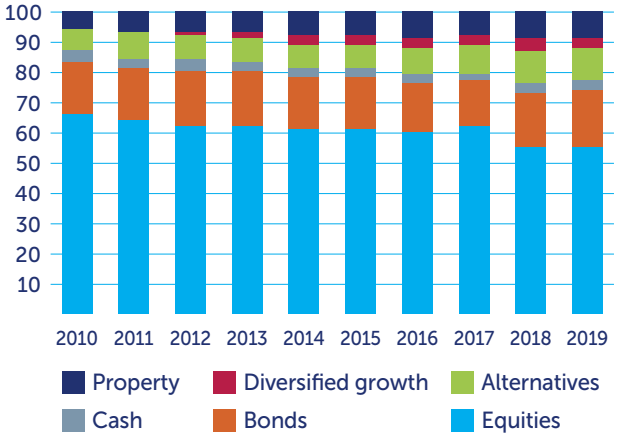
Asset allocation

Figure 17 shows high level asset allocation remained broadly unchanged over the last decade – with equities remaining the dominant asset class in most funds' allocations. The average local authority fund is still substantially overweight equities when compared to schemes in the corporate sector that continue to run an investment portfolio . These

Funds structure is becoming ever more complex.

Figure 17: Asset allocation, last ten years

% weighting at 31/3/19



schemes have shrunk their equity component as they have sought to 'de-risk' their assets, moving instead to bonds and cash-flow matching investments.

Given the strong performance of equities over the recent past this decision will have made the corporate schemes considerably more expensive for the employer. In contrast, LGPS funds have seen their asset values increase significantly. As well as having a positive impact on funding levels this has offset some of the increases brought about by increased longevity and falling bond yields (the metric on which they are measured) in their liabilities over the same period.

Despite this broadly static high level asset allocation there has been considerable change to the detail of funds at the detailed level with alternatives portfolios in particular becoming ever more diverse.

Complexity

There has been a strong trend for funds to hold ever larger numbers of portfolios of relatively small value. It is not uncommon now for even the smaller funds within the LGPS to be structured in such a way that requires them hold a double digit number of managers.

Complexity brings considerable burdens in terms of administration, monitoring and governance.

Complexity brings considerable burdens in terms of administration, monitoring and governance (particularly for relatively illiquid investments) whilst further increasing the number of managers or investment products is likely to have a minimal impact on the fund bottom line.

The move into pooling should offer the opportunity to reduce complexity and the number of portfolios held. There is an opportunity to simplify asset structure through the member authorities being offered a limited number of well run, well targeted investment funds.

The move into pooling should offer the opportunity to reduce complexity and the number of portfolios held.

Currently however, it seems that pools are trying to accommodate as many funds' asset class, product and manager preferences as possible and, as such are still talking of running large numbers of sub funds.

Within the London CIV funds buy individual managers and so they retain direct control over manager selection (albeit from a limited subset of managers offered by the CIV) and the level of manager diversification they want.

Most of the other pools have however taken a different approach – whereby an individual fund will invest, for example in the pools global equity portfolio. In this scenario this portfolio is almost certain to contain more than one manager. The individual fund has no direct control over either the firm chosen or the number of managers within the grouping.

There are pros and cons to such an approach. One advantage could be that the Pool takes the historically difficult, timely and expensive task of manager selection from individual funds, freeing them to focus on strategy. A second advantage is diversification – by having a range of managers for one asset the fund should achieve less volatile performance. Yet another advantage could be a reduction in cost.

Amongst the potential disadvantages is firstly the possibility that the Pool turns out to be no better at selecting managers than the individual funds. Indeed there is no track record offered by any of the pools to suggest additional skill in this area.

A second downside could be that with a group of managers the opportunity for strong outperformance is reduced. A third may be that by allocating smaller amounts of money to a number of managers costs do not reduce to the anticipated levels.

The final disadvantage of this approach may be the extra cost incurred in paying someone (either the Pool or an intermediary) to monitor and manage the suite of managers.

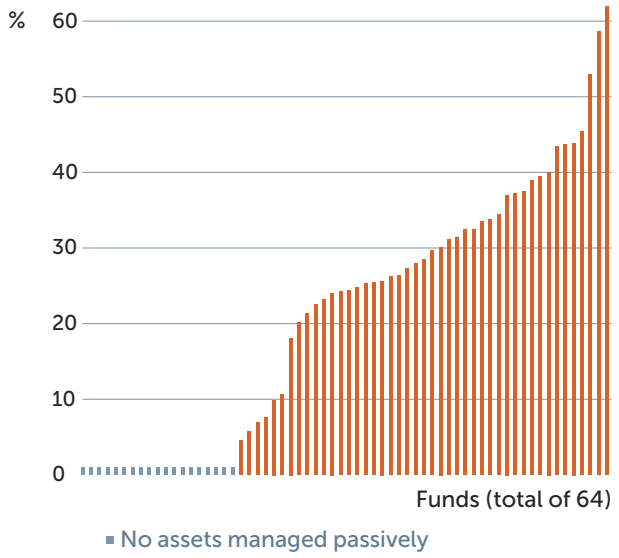
How this plays out in performance and cost terms over the next few years will be of enormous interest. We will come back to this issue to review further towards the end of this document.

Active or passive?

The proportion of funds managed actively, although lower than a decade ago, remains high, at around three quarter of total assets. In the latest year we saw a small increase in passive equity investment as funds reviewed their equity strategies ahead of pooling.

It seems counterintuitive that, although funds are focussed on reducing costs the move from (high cost) active management to (low cost) passive has not gained more significant ground and that most funds continue to seek active value over and above the active managers' fees.

Figure 18: Level of passive management by fund
% passive at end March 2019



Currently within the Universe there are just under a third of funds that are entirely actively managed whilst a further third have more than 30% managed passively as can be seen in Figure 18.

Risk and volatility

There has been a move from equities to 'lower risk' investments.

- Over recent years we have seen a continued move away from equities and a commensurate increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential, such as multi asset credit and infrastructure.
- Whilst many view their funds as very long term investments and are therefore prepared to live with market volatility in the short term, others are increasingly looking to mitigate the impact of these short term fluctuations.
- Negative cash-flow (or the ever-nearing possibility thereof) means funds are having to consider how best to enhance income flows.
- Given the relationship between risk and return it little surprise that the best returns over the recent past and the longer term have been delivered by the funds that have accepted the highest level of volatility.

The long-term performance is always dominated by the results from equities. Despite disinvestment from this area over many years, equities still make up more than half of the average fund asset allocation. Over the last decade there has been a marked move away from UK equities towards global equity portfolios. This move has resulted in US equities becoming the largest component in most funds equity portfolios and for many the largest single component of their entire fund. Funds have different attitudes to the investment (asset) risk that they are taking. Whilst many view their funds as very long term investments and are therefore prepared to live with market volatility in the short term, others are increasingly looking to mitigate the impact of these short term fluctuations. Over recent years we have seen a large increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential.

These lower risk strategies are being put in place be-

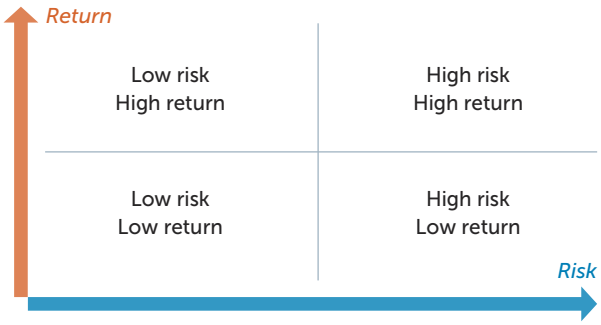
cause of the changing circumstances in which funds find themselves. After decades of being in a situation where the money coming in (through contributions and income) has been greater than that going out (in pension payments) some funds are experiencing negative cashflow for the first time. This brings new challenges as funds try to avoid a situation where they are forced to sell assets at distressed values.

The more volatile assets have delivered the highest return whilst the least volatile has delivered the lowest.

Complex profiles of admitted bodies also have an impact on individual fund risk appetite and finding strategies to deal with this issue continues to tax many funds.

Figure 19 shows there is a direct (and ordinarily obvious) relationship between risk and return and as such, we should expect to see the more risk averse funds deliver lower volatility but achieve lower returns than their peers.

Figure 19: Relation between risk and return



We have plotted the various asset classes into this risk/return space over the last ten years In Figure 20 below. It can be seen that, as usual, the more volatile assets (equities) have delivered the highest return whilst the least volatile (cash) has delivered the lowest.

If we look at the shorter term in Figure 21 a very similar picture emerges. Funds have been rewarded for the risk that they have taken on through their equity investment be that quoted or private. Infrastructure has been the most efficient asset over this period delivering a return of 11% p.a. at a volatility of under 5% p.a. (although this volatility may be understated by the valuation process of some of these investments).

Figure 20: Asset class returns in Risk/Return space - last ten years

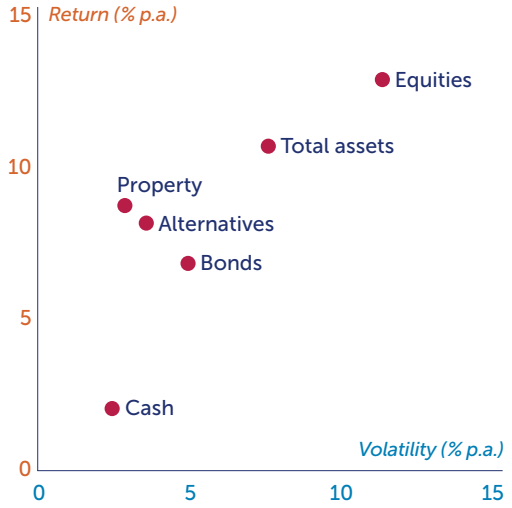


Figure 21: Asset class returns in Risk/Return space - last three years

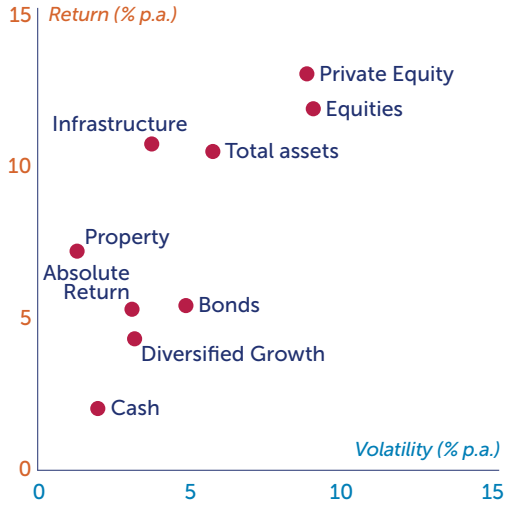


Figure 22 shows individual fund performance over the period in risk and return space. Each fund is represented by a blue dot. The higher the fund lies on the vertical y axis the better its return, the further to the right on the horizontal x axis the greater the volatility experienced. The cross-hair lines represent the median risk and return.

Over the ten year period the funds that have performed best have been the ones that have accepted a higher level of volatility. Whilst there is a clear trend line of the return increasing in line with volatility it is

Figure 22: Risk and return distribution of funds over last ten years

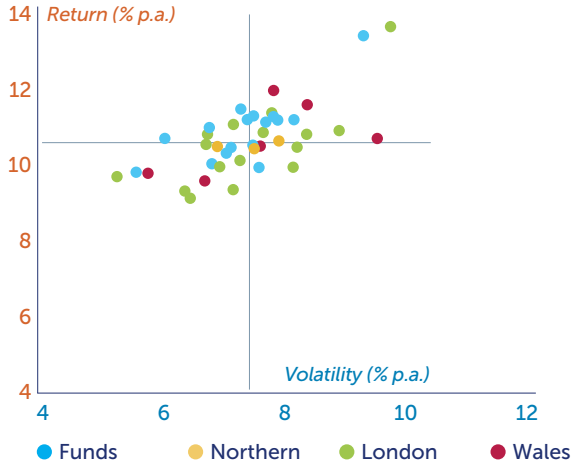
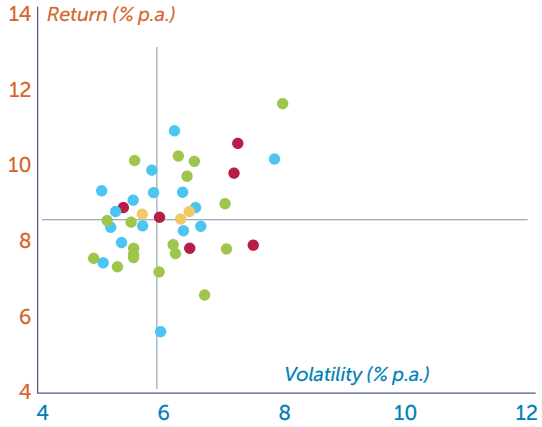


Figure 23: Risk and return distribution of funds over last five years



Not all funds are included in the risk/return analysis as not all have been able to provide the monthly data necessary to calculate fund volatility.

interesting that some funds do seem to 'derisk' significantly more efficiently than others. The small number of funds in the top left quadrant that have managed to deliver better than average results at a lower than average volatility tend to be larger than their peers – size perhaps allowing more effective diversification?

Over the last five years, as can be seen in Figure 23 overall volatility has reduced as has the overall level of return generated. The spread of results has widened over this period and the risk/return tradeoff is less clear to see although the best performing funds are still those accepting the highest volatility.

Over the long term a lower risk strategy has come at a (often considerable) cost. Whilst we would not wish to comment on the efficacy of one approach over the other, it is important that investment committees, officers and other decision makers appreciate the potential value implications of 'de-risking'. Most LGPS funds have liabilities that are extremely long term in nature. This should allow funds to be less concerned with short term volatility. The strictures put in place by the cycle of triennial revaluations can have the effect of reducing funds' time horizons and focussing them on much shorter term periods. However, as we have shown earlier, it is a much rarer occurrence than may be commonly perceived for there to be a negative result over the three year triennial period.

Over the long term a lower risk strategy has come at a (often considerable) cost.

Figure 24: Global equity pool offerings

MULTI MANAGER					SINGLE MANAGER	
B2C	LPP	Central	Wales (Opp)	Wales	Access	London
Investec	Internal	Union Investment	Morgan Stanley	Baillie Gifford	Longview	Longview
Harris Associates	Robeco	Harris	Numeric	Pzena	Baillie Gifford	Baillie Gifford
Lindsell Train	Magellan	Schroders	Sanders	Veritas	M&G	Epoch
Loomis Sayles	First Eagle		Jacobs Levy			Allianz
	Wellington		S W Mitchell			Newton
	Baron		NWQ			
			Oaktree			

Best and worst performing funds

Over the last 5 years the funds that have achieved the best returns shared a number of features. The funds have held a relatively high level of equities throughout the period. As a result they have experienced more volatility than other funds and, over this period the volatility has been rewarded. However they have also shared some other common features. The funds have had more of their assets managed actively than their peers. They have had a relatively high level of investment in Baillie Gifford and BlackRock. The funds tend (but are not all) smaller than average and the fund structures are less complex. These funds are generally well funded. We do not know whether they have done well because they are well funded (and can therefore accept more volatility) or whether they are well funded because of the strong relative performance.

The funds that delivered the lowest returns also share some characteristics. These funds have a relatively low level of equities and a commensurately higher level of alternatives particularly diversified growth investments. They are almost all less volatile than average. Like the best performing group these funds tend to be smaller than average. These funds have a higher than average portion of their assets managed on an index tracking basis – possibly a reasonable response to disappointment from their active managers over part of the period.

This group of funds tends to be relatively poorly funded when ranked against their peers. Again, it is difficult to untangle whether they have de-risked because they are poorly funded or whether they are poorly funded because they have de-risked. What we can say with certainty is that a lower risk / lower return approach is unlikely to close any funding gaps and it is likely that the participants in these funds will see contributions rise to close the shortfall.

Impact of pooling

The returns that are shown for the latest year do not include any costs that funds have incurred in the set-up of the various pooling arrangements. At this stage these costs are likely to have little impact on overall scheme returns. Going forward we continue to investigate how best to collect the direct costs at individual scheme level so that performance can be calculated before and after these costs which have the potential to vary quite markedly across participating funds. It will also be important to show that the pools are delivering value for the participating funds. We have some concerns around the level of return being sought for some of the pool funds on offer.

Fund performance still does not incorporate the direct costs of Pooling.

Most of the pools have now launched their active equity offering, the structure of each is outlined in Figure 24.

The London CIV and Access Pool have taken the same approach whereby individual funds can select between single manager funds, thereby allowing the manager selection to remain with the investment committee. The other Pools, with the exception of Northern where the participating schemes are remaining broadly intact, are offering a multi-manager approach.

Multi manager funds

In a multi-manager scenario the Pool chooses a number of managers, in most cases these are external whilst in the case of LPP this is a combination of internal and external. The multi-manager approach intends to reduce volatility whilst combining portfolios in such a way as to deliver outperformance.

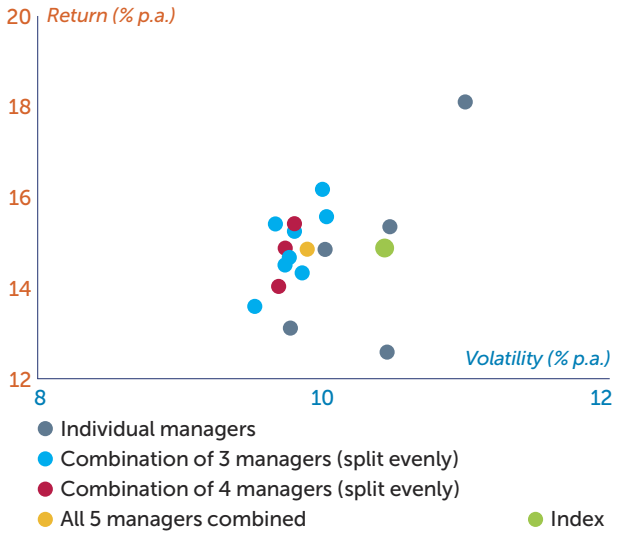
Pools must be able to show they are delivering value for participating funds

Multi-manager products have been available for many years. Indeed a number of pension funds invested in such products years ago before divesting on the back of disappointing performance. Will the pools fare better? This will depend on whether they have greater skill in manager selection than has previously been demonstrated by the industry as a whole.

Active equity managers have not fared particularly well over the recent past as we discussed at length last year. To get a feel for whether funds would have achieved a better result from a multi-manager

approach we took monthly data for indicative portfolios for the last three years for the top 5 active global equity managers and then combined these in a variety of combinations which are shown in Figure 25.

Figure 25: Global multi-manager combinations. 3 years to end March 2019



The individual managers are shown in grey. The combinations of three managers (split evenly) in red, combinations of four managers (split evenly) in blue and all five managers combined in yellow. The index is shown in green.

Looking at the combinations of three managers it can be seen that the multi-manager approach does reduce the volatility of returns as would be expected. It also reduces the range of results – in effect the opportunity for strong outperformance (or underperformance) is diminished. If we then increase the complexity to four funds (shown in purple) the volatility and range of results increases further. By the time we increase the structure to five managers the return that is generated is in line with the index (albeit at lower volatility).

These results do not include the additional inevitable layer of cost that comes about from the structures that need to be in place to select, monitor and review the managers within the offering. So, a multi-manager approach will almost certainly reduce volatility however it would seem that such an approach is likely to deliver returns that are closer to the market index than that which would be delivered by a single manager. We therefore question just how the aggressive outperformance targets set by the pools will be met.

A multi-manager approach will reduce volatility but may dampen performance.

Looking at the roster of managers within the offerings we are seeing many who were previously unknown to and have no track record within the Local Authority market. These firms are often quite small and specialised. This may or may not result in interesting innovative insights that allow exceptional performance but it also raises other potential issues such as key man risk, something of which unfortunate investors in Woodford will be uncomfortably aware.

Funds will need to ensure that the move into pool assets is in their own best interests and will not negatively impact longer term returns.

As part of good governance each fund investing in the multi-manager arrangements should expect to be given detailed information to allow them to understand:

- who the managers selected are – structure / size / people / investment style
- how these managers have been chosen
- why the allocation between managers is as it is
- how the Pool expects the component managers to perform and in what way
- how the Pool expects the aggregate portfolio to perform and in what way
- what process is in place for monitoring and over what periods
- what procedures are in place in case of 'failing' managers
- how are the oversight costs incorporated into performance.

It will be an interesting few years as we see just what these strategies deliver. As a check on how the change has impacted them, funds may find it useful to continue to measure the performance of their outgoing managers. This would give a very simple comparison of the value added (or otherwise) of the move. Please get in touch if you'd like to discuss this further.

APPENDIX

Longer term returns, % p.a.

	2019	3 years	5 years	10 years
Total Equity	**7.3**	**13.0**	**9.9**	**12.9**
Global	8.6	14.3	11.6	13.2
UK	5.7	9.2	5.9	11.5
Overseas	6.0	14.1	11.6	13.2
North America	16.2	17.0	15.6	16.4
Europe	2.0	11.0	8.3	11.6
Japan	-1.2	13.7	12.2	10.7
Pacific	2.9	14.1	9.1	11.9
Emerging	0.0	13.3	8.7	10.6
Total Bonds	**3.7**	**5.4**	**5.8**	**6.8**
Global	3.9	5.9	3.5	1.7
UK Bonds	4.5	5.5	5.7	7.2
UK Government	5.1	5.7	-	-
UK Corp	4.0	5.8	-	-
UK IL	5.3	7.6	8.9	8.8
Non UK bonds	3.9	6.1	6.2	5.8
Absolute Return bonds	-	-	-	-
MAC	0.1	-	-	-
Cash	**0.8**	**0.2**	**0.7**	**1.0**
Alternatives	**10.3**	**10.8**	**10.5**	**8.1**
Private Equity	15.3	15.1	14.7	10.2
Hedge Funds	1.8	3.1	4.5	5.0
Infrastructure	11.7	11.9	11.0	-
Diversified Growth	**0.3**	**3.2**	**3.1**	-
Property	**6.1**	**7.2**	**9.5**	**8.7**
Total Assets	**6.6**	**10.5**	**8.9**	**10.8**

Asset allocation

	% Allocation at end March											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Equities	65	62	66	64	62	63	63	62	60	62	55	55
Bonds	18	20	17	17	18	18	17	17	16	15	18	19
Cash	4	4	4	3	4	3	3	3	3	2	3	3
Alternatives	5	7	7	9	8	8	8	8	9	10	11	11
Diversified Growth	-	-	-	-	1	2	3	3	3	3	4	3
Property	7	7	6	7	7	7	8	8	9	8	9	9

The questions that the Universe seeks to address

THE PIRC Local Authority Pension Fund Performance Universe is a survey of UK local authority defined benefit pension funds. As at 31 March 2019 it comprised 64 funds with a value of £193 bn.

At aggregate level

- How has the LGPS performed in absolute terms over the short, medium and longer term?
- Is the LGPS adding value relative to the strategic benchmarks that funds have set?
- How is the LGPS structured in terms of asset allocation and how has this changed over time?
- What is the performance of the aggregate LGPS in the major asset classes in which it invests over the short, medium and longer term?
- How does this performance compare against benchmarks?
- Is risk taken being rewarded?
- What is the spread of performance – why are some funds performing better than others, can strengths and key drivers of performance be identified?

At fund level

- How does the absolute level of investment return achieved by the fund compare with others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?
- How does the relative performance compare to that achieved by others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?

These questions can be answered relative to the full LGPS or split in a variety of ways including by region/funding level/structure

- How have these differences come about?
- How does the structure of the fund differ from other funds?

New questions relating to pooling

- How does the level of investment return achieved by the fund compare with others in the pool?
- How does the relative performance compare to that achieved by others in the pool?
- How has the pool manager performed relative to its benchmark, target and other pool managers operating the same mandate?
- How has the overall pool performed in absolute terms relative to other pools?
- How has the overall pool performed in relative terms relative to other pools?
- Is the performance of the pool improving?
- Is the volatility/risk of the pool reducing? How does this compare to the other pools?
- Is manager change within the pool reducing? How does this compare to the other pools?
- How does the structure of the pool differ from that of the other pools?

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Pension Fund Committee

9 September 2019

Title	**Barnet Council Pension Fund - Performance for the Quarter to 30 June 2019**
Report of	Director of Finance
Wards	N/A
Status	Public with exempt Appendix D
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 30 June 2019 Appendix B - Asset Allocation as at 30 June 2019 Appendix C - Review of Investment Managers Performance for 2nd quarter of 2019 (Hymans Robertson) Appendix D - Review of Fund Managers (Hymans Robertson) (exempt) **Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information).**
Officer Contact Details	George Bruce, Head of Treasury, George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' activity during the three months to 30 June 2019 together with fund manager performance in the quarter.

Officers Recommendations

That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 30 June 2019.

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

Fund Valuation

1.2 The valuation of the fund as at 30 June 2019 was £1,184.6 million, an increase of £37.6 million (3.2%) compared with the 31 March 2019's valuation of £1,147.0 million as detailed on appendix B. The chart on appendix A indicates a mostly steady increase in valuations over the last six years.

Performance Summary

1.3 The Fund returned 3.3% in the quarter with all mandates recording positive returns. The fund outperformed the benchmark by 0.6% in the quarter lead by BNY Mellon (Newton) Real Return and IFM Infrastructure, both greater than 3% over benchmark.

1.4 For the 12 months to March, the total fund return was 5.8% (0.6% below benchmark). The main source of out-performance was BNY Mellon (Newton) whose return of 9.2% exceeded benchmark by 4.2%. The overall underperformance was mainly driven by Schroders DGF (-5.4% below benchmark) with some of the newer credit mandates also suffering.

1.5 The three year returns of 7.5% p.a. was also 0.6% p.a. below benchmark with equities returning 12.1 p.a. and Schroders Corporate Bonds exceeding the benchmark by 1.0% p.a. The two DGF's returned -2.2% p.a. (BNY Mellon) and -3.0% p.a. (Schroders).

Investment Manager Ratings

1.6 Hymans provide ratings for all the investment managers. There have been no changes since the last meeting. Most of the mandates are rated at Hymans' highest level of conviction (preferred). The exceptions are the two DGF's funds rated as suitable and the Schroders' Corporate Bonds mandate rated as positive.

Fund Manager Transactions

1.7 The only significant transaction since the last report was a withdrawal from the BNY Mellon Real Return Fund of £15 million during July used to repay the loan from the Council that in turn had been used in June to fund half of the commitment to the CBRE Global Property Fund ($16 million).

1.8 There was distribution from Alcentra (Direct European Lending) of £1.50 million and Partners £0.93 million.

1.9 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£4.4 million
CBRE Global Alpha ($32 million)	$16 million
IFM	$8.9 million

Partners 2019 MAC £30 million

Allocations v Strategy

1.10 Appendix B highlights the portfolio positions compared with benchmark. The target allocations have been amended to include the unfunded mandates for property and equity and to reduce the DGF weighting to nil. The other significant difference is the underweighting for illiquid alternatives, partly due to capital being returned by Partners and Alcentra and the unfunded commitments to the European Direct Lending Fund. The recently agreed commitment to Partner 2019 fund will add to this allocation along with the proposed commitment to the LCIV Global private debt fund. Cash will be taken from the two diversified growth funds as required to fund other mandates.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Financial Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.'

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 Risk Management

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable

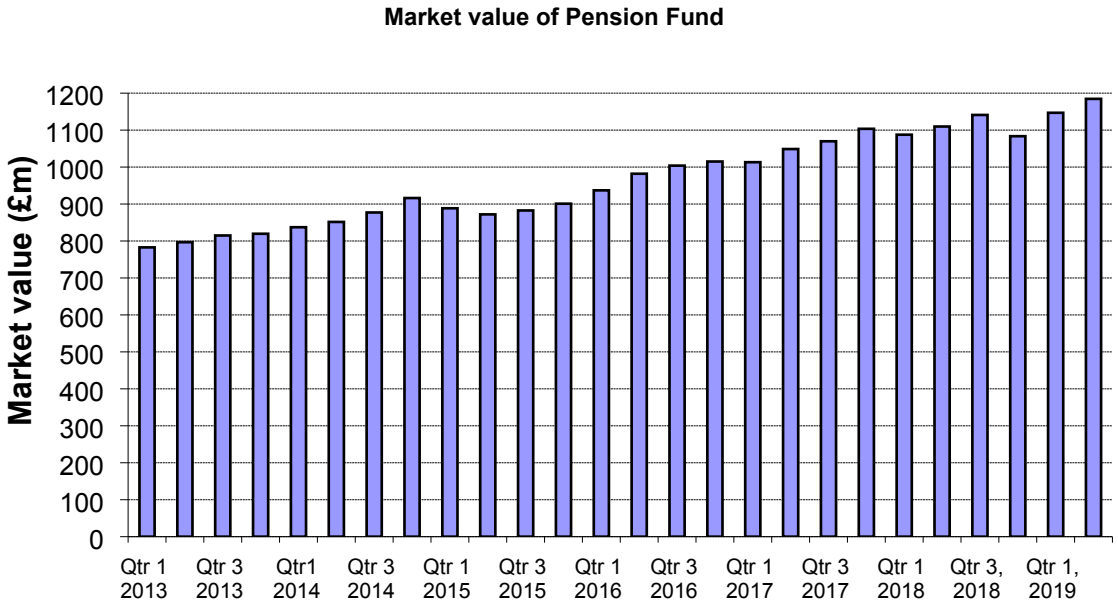
5.9 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Market Value of Investments as at 30 June 2019



Appendix B - Asset Allocation to 30 June 2019

LB Barnet Pension Fund

	Allocation as at 30.6.2019				Target Allocation
	£	%	%	%	%
Equities			**39.82**		**50.00**
LGIM Global	247,183,425	20.87		20.00	
LGIM RAFI	224,509,013	18.95		20.00	
Emerging Markets	0	0.00		5.00	
Private Equity	0	0.00		5.00	
Property			**3.40**		**10.00**
Core UK Commercial	0	0.00		5.00	
Aberdeen Standard Long Lease	27,704,725	2.34		2.50	
CBRE Global	12,598,425	1.06		2.50	
Diversified Growth			**21.70**		**0.00**
Schroder	144,996,986	12.24		0.00	
BNY Mellon (Newton)	112,085,020	9.46		0.00	
Multi Credit Liquid			**9.92**		**11.00**
Baring Global High Yield	38,654,094	3.26		3.50	
Alcentra	35,758,710	3.02		3.50	
Insight Secured Finance	43,051,238	3.63		4.00	
Corporate Bonds			**10.62**		**10.00**
Schroder	125,818,673	10.62		10.00	
Illiquid Alternatives			**15.19**		**19.00**
Alcentra	31,740,619	2.68		4.00	
Partners Group	57,220,914	4.83		7.00	
M&G Lion Credit Opport	31,066,774	2.62		3.00	
IFM Global Infrastruct	59,906,331	5.06		5.00	
Cash	-7,736,480	-0.65	**-0.65**	0.00	**0.00**
Total	**1,184,558,467**	**100.00**		**100.00**	**100.00**

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HYMANS ROBERTSON

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2019

Prepared By:

Nick Jellema - Investment Consultant
Yoel Deal - Investment Associate Consultant

For and on behalf of Hymans Robertson LLP
August 2019

Contents

Executive Summary

Valuation and Performance Summary

Fund assets totalled c.£1,185.9m at the end of Q2 2019, an increase of c.£40.6m from the end of the previous quarter.

The Fund's assets returned 3.3% (net of fees) over the quarter.

All mandates (excluding passive funds) outperformed relative to their performance targets, with the exception of Barings Multi-Credit and Schroder Life Diversified Growth.

Actions and Recommendations

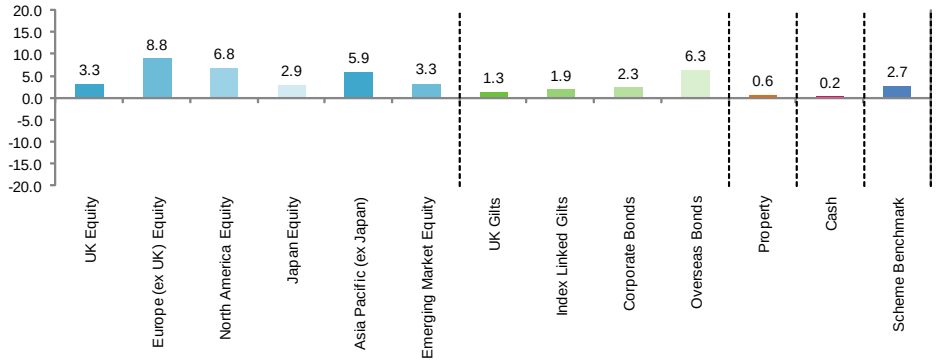
The Fund implemented a 2.5% strategic allocation to Property over the quarter, investing £27m with the Standard Life Long Lease Property Fund on 3 June 2019. This has been reflected in our report by reducing the strategic allocation to Diversified Growth (BNY Mellon) by 2.5%.

Over the quarter Newton rebranded their fund names This has been reflected in our rep to reference BNY Mellon instead of Newton.

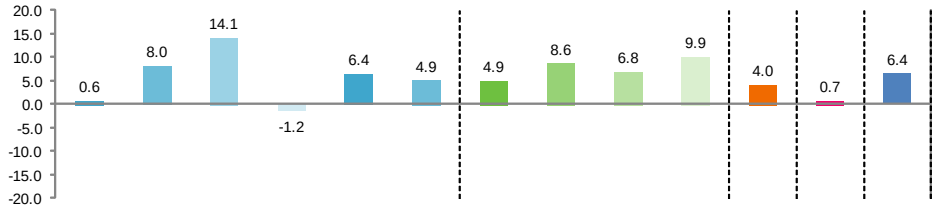
Historic Returns for World Markets to 30/06/2019

Historic Returns [1] [i]

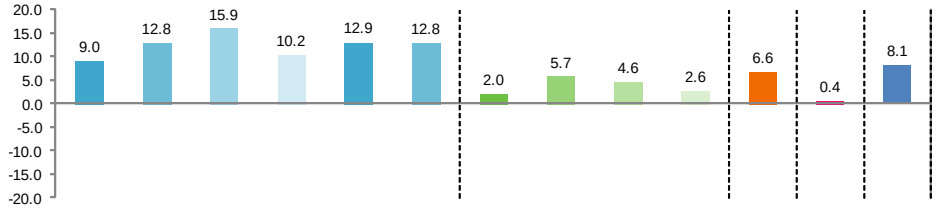
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

Global credit markets largely ignored the latter escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – MSCI UK Monthly Property Index; Cash – UK Interbank 7 Day.

Source: [i] DataStream, Fund Manager, Morgan Stanley Capital International

LGPS Focus

Continuing to act responsibly
Climate change continues to be a key theme for investors. Some recent updates in this area include; Simon Jones' Blog in Room 151 "Climate Change – not someone else's problem" and LGIM's decision to exclude ExxonMobil from their Future World Fund, given the stock has "has not met their key minimum requirements, including on emissions reporting and targets". We have also seen notable demand from funds to explore climate risks as part of their valuation process.

Time for reflection
The transition of assets has long been recognised as a pivotal point in the pooling process. We strongly encourage LGPS funds and Pools to reflect on the transitions that have taken place to date, particularly in light of the draft information request from MHCLG. Factors to reflect on include:

- How could the process be improved?
- What additional data analysis could be carried out to save costs?
- What was the process for signing off the investment suitability of the Pools' sub-funds?

These should improve future outcomes and ensure a suitable audit trial is in place for the process.

Good Governance in the LGPS
Earlier this year, we were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structure for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. Our report, which is available on our website, sets out the results of our review, recognising the strengths and weaknesses in all governance models.

Rain drops keep falling on our heads
A lot of time and energy has been spent over the last few months resolving the impact of the McCloud case on March year end accounting. Whilst hopefully that particular storm has blown over, LGPS funds in England & Wales will need to consider how to manage the risk as part of the 2019 valuation. Our recent note, which can be found on our website, discusses this topic and considerations for Administering Authorities in more detail.

Are we still keeping Order?
Last month, we highlighted that an Order by the Competition and Markets Authority had established new requirements affecting LGPS funds. The Scheme Advisory Board ("SAB") has since published two briefing notes on the LGPS Board website, which discuss the subject in more detail (the SAB's most recent note includes reference to the DWP's Consultation on the Order).

TPR push for better governance with new consultation
TPR announced a new consultation on the future of trusteeship and governance stating the vision that all savers are "in schemes that have excellent standards of governance that deliver good value". In an accompanying blog post, TPR signposts clearly that it intends to "make life more uncomfortable" for those DB and DC schemes where governance is not up to standard, including levying fines for breaches of regulation. As an indication on TPR's direction of travel, this consultation is another reminder to LGPS funds that the Regulator has ever increasing expectations on those managing schemes/funds. Using the words of TPR, trundling along and being blissfully ignorant as there have been no current problems has never been allowed and will not be accepted. Our advice is to make sure you have the evidence at hand to confirm that is not the case for your fund.

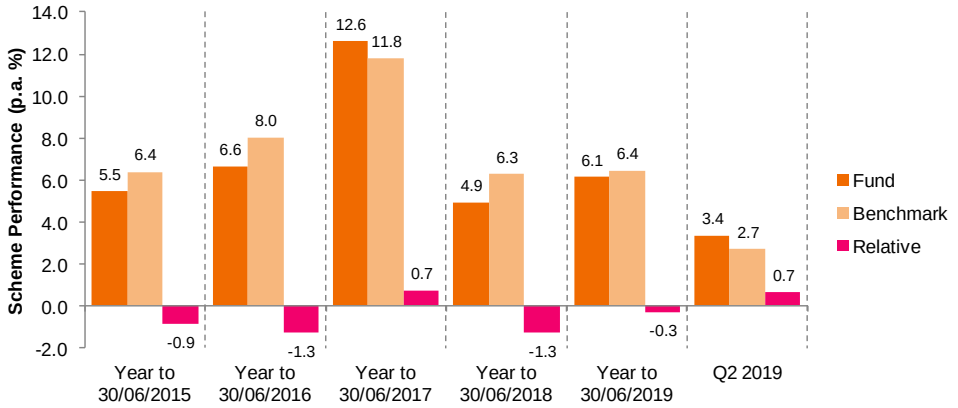
Potential LGPS impact of recent Armed Forces appeal case
The Court of Appeal Armed Force case – Langford vs Secretary of State – found that the refusal to pay a survivor's pension on the basis that the appellant had remained married to another person was an unlawful discrimination. On the face of it, this decision could have a similar impact to recent cases such as Brewster on the Death benefit rules of the LGPS. However, the concluding remarks of Lord Justice McCombe leave open the possibility that this 'exclusionary rule' may be justified and proportionate in other cases – such as other public service schemes.

Fund Summary

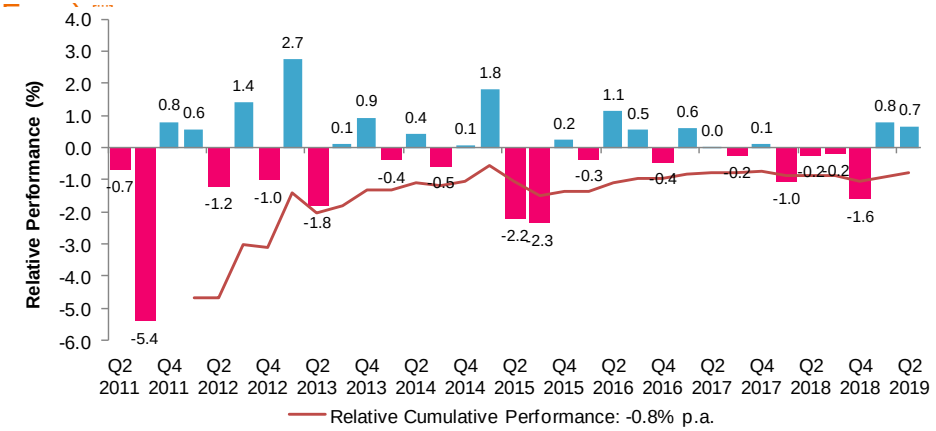
Valuation Summary [i]

Asset Class	Values (£m) Q1 2019	Q2 2019	Actual Proportion %	Target Proportion %	Difference %
Alternative Credit	73.3	74.1	6.3	7.0	-0.8
Global Equity	452.7	472.0	39.8	40.0	-0.2
Absolute Return Funds	262.8	257.0	21.7	17.5	4.2
Multi-Credit	73.6	74.4	6.3	7.0	-0.7
Corporate Bonds	121.8	125.2	10.6	10.0	0.6
Illiquid Credit	88.0	87.9	7.4	11.0	-3.6
Infrastructure	56.3	59.8	5.0	5.0	0.0
Property	0.0	27.7	2.3	2.5	-0.2
Cash	16.9	7.7	0.7	0.0	0.7
Total Client	**1145.3**	**1185.9**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of



Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Manager Summary

Manager Summary [1]

Manager	Investment Style	Benchmark Description	Annual Fee (bps)
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	3
Alcentra Multi-Credit	Active	3 month £ LIBOR + 4% p.a.	50
BNY Mellon Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59
Schroder Life Diversified Growth Fund	Active	CPI + 5% p.a.	55
Barings Multi-Credit	Active	3 month £ LIBOR + 5% p.a.	53
Insight Secured Finance Fund	Active	3 month £ LIBOR + 4% p.a.	36
M&G ABS Alternative Credit Fund	Active	3 month £ LIBOR +1.75% p.a.	30
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts Index	18
Alcentra Direct Lending	Active	7%-12% p.a. net IRR	125
Partners Group MAC 2015	Active	3 month £ LIBOR + 4-6% p.a.	73
Partners Group MAC 2017	Active	3 month £ LIBOR + 4-6% p.a.	73
IFM Global Infrastructure	Active	8-12% p.a.	77
Standard Life Long Lease Property Fund	Active	FT British Government All Stocks Index plus 2%	49

Manager Valuations [i]

	Value (£m)				
Manager	Q1 2019	Q2 2019	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	452.7	472.0	39.8	40.0	-0.2
Alcentra Multi-Credit	35.3	35.8	3.0	3.5	-0.5
BNY Mellon Real Return Fund	120.4	112.1	9.5	7.5	2.0
Schroder Life Diversified Growth Fund	142.4	144.9	12.2	10.0	2.2
Barings Multi-Credit	38.3	38.7	3.3	3.5	-0.2
Insight Secured Finance Fund	42.5	43.1	3.6	4.0	-0.4
M&G ABS Alternative Credit Fund	30.8	31.1	2.6	3.0	-0.4
Schroder All Maturities Corporate Bond Fund	121.8	125.2	10.6	10.0	0.6
Alcentra Direct Lending	30.4	30.7	2.6	4.0	-1.4
Partners Group MAC 2015	26.3	25.4	2.1	4.0	-1.9
Partners Group MAC 2017	31.3	31.8	2.7	3.0	-0.3
IFM Global Infrastructure	56.3	59.8	5.0	5.0	0.0
Standard Life Long Lease Property Fund	0.0	27.7	2.3	2.5	-0.2
Cash	16.9	7.7	0.7	0.0	0.7
Total	**1145.3**	**1185.9**	**100.0**	**100.0**	0.0

[1] The Q2 19 valuation for Alcentra Direct Lending is as at Q1 19, due to a lag applied by the manager. [2] Weighted average fee of 3bps for LGIM is based on the underlying funds held.

Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	4.3	4.2	**0.1**	6.2	6.1	**0.1**	12.2	12.1	**0.1**	9.8	9.7	**0.1**
Alcentra Multi-Credit	1.4	1.2	**0.2**	3.6	4.9	**-1.2**	6.6	4.6	**1.9**	6.4	4.6	**1.7**
BNY Mellon Real Return Fund	4.4	1.2	**3.2**	9.8	4.8	**4.8**	2.8	4.5	**-1.6**	4.1	4.6	**-0.5**
Schroder Life Diversified Growth Fund	1.8	2.1	**-0.3**	1.7	7.0	**-5.0**	4.9	7.5	**-2.4**	4.5	7.6	**-2.9**
Barings Multi-Credit	1.2	1.5	**-0.3**	3.0	5.9	**-2.7**	6.8	5.7	**1.0**	6.5	5.7	**0.8**
Insight Secure Finance Fund	1.4	1.2	**0.2**	3.4	4.9	**-1.4**				4.4	4.6	**-0.2**
M&G ABS Alternative Credit Fund	1.0	0.6	**0.4**	1.7	2.6	**-0.9**				3.2	2.4	**0.8**
Schroder All Maturities Corporate Bond Fund	2.8	2.0	**0.8**	7.3	6.0	**1.2**	5.2	4.0	**1.2**	6.7	6.2	**0.5**
Alcentra Direct Lending	2.8	2.4	**0.4**							4.6	4.8	**-0.2**
Partners Group MAC 2015	2.3	1.5	**0.8**	6.9	4.4	**2.4**						
Partners Group MAC 2017	1.8	1.5	**0.3**	5.3	4.4	**0.9**						
IFM Global Infrastructure	6.3	2.5	**3.7**							7.4	5.1	**2.2**
Standard Life Long Lease Property Fund										0.4	0.3	**0.1**
Total	3.4	2.7	**0.7**	6.1	6.4	**-0.3**	7.8	8.1	**-0.3**	6.6	7.5	**-0.8**

Performance Summary (Net of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	4.3	4.2	**0.1**	6.1	6.1	**0.0**	12.1	12.1	**0.0**	9.7	9.7	**0.0**
Alcentra Multi-Credit]	1.3	1.2	**0.1**	3.1	4.9	**-1.7**	6.0	4.6	**n/a**	5.9	4.6	**1.2**
BNY Mellon Real Return Fund	4.2	1.2	**3.0**	9.2	4.8	**4.2**	2.2	4.5	**-2.2**	3.5	4.6	**-1.1**
Schroder Life Diversified Growth Fund	1.6	2.1	**-0.5**	1.2	7.0	**-5.4**	4.3	7.5	**-3.0**	4.0	7.6	**-3.4**
Barings Multi-Credit	1.0	1.5	**-0.5**	2.5	5.9	**-3.2**	6.3	5.7	**0.6**	6.2	5.7	**0.5**
Insight Secure Finance Fund	1.3	1.2	**0.1**	3.0	4.9	**-1.8**				4.0	4.6	**-0.6**
M&G ABS Alternative Credit Fund	0.9	0.6	**0.3**	1.4	2.6	**-1.2**				2.9	2.4	**0.5**
Schroder All Maturities Corporate Bond Fund	2.7	2.0	**0.7**	7.1	6.0	**1.0**	5.0	4.0	**1.0**	6.5	6.2	**0.3**
Alcentra Direct Lending	2.5	2.4	**0.1**							4.0	4.8	**-0.8**
Partners Group MAC 2015	2.1	1.5	**0.6**	6.2	4.4	**1.7**						
Partners Group MAC 2017	1.6	1.5	**0.1**	4.5	4.4	**0.1**						
IFM Global Infrastructure	6.1	2.5	**3.5**							7.0	5.1	**1.8**
Standard Life Long Lease Property Fund										0.3	0.3	**0.0**
Total	3.3	2.7	**0.6**	5.8	6.4	**-0.6**	7.5	8.1	**-0.6**	6.2	7.5	**-1.2**

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

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

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