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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Local Pension Board

Notice of a Meeting of the Local Pension Board

Friday, 25 October 2019 at 10.30 am

Room 3 - County Hall, New Road, Oxford OX1 1ND

Yvonne Rees
Chief Executive

Date Not Specified

Committee Officer: ***Deborah Miller***
Tel: 07920 084239; Email: deborah.miller@oxfordshire.gov.uk

Membership

Chairman – Mark Spilsbury

Scheme Members:

Alistair Bastin	Stephen Davis	Sarah Pritchard

Employer Members:

Lisa Hughes	Councillor Bob Johnston	Angela Priestley - Gibbins

Notes:

- ***Date of next meeting: 24 January 2020***

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to

(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?
The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.
The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned….."*.

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:
Employment (includes"*any employment, office, trade, profession or vocation carried on for profit or gain*".), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. **Welcome by Chairman**

2. **Apologies for Absence**

3. **Declarations of Interest - see guidance note opposite**

4. **Petitions and Public Address**

5. **Minutes** (Pages 1 - 6)

   To approve the minutes of the meeting held on 12 July 2019 (**LPB5**) and to receive information arising from them.

6. **Employer Management - Improvement Plan** (Pages 7 - 14)

   The attached report (**LPB6**) is the latest in the series of reports to the Pension Fund Committee and this Board and sets out the latest position against the objectives and milestones set out in the Improvement Plan.

   The Board is RECOMMENDED to note the latest position with regard to the implementation of the Improvement Plan.

7. **Review of the Annual Business Plan 2019-20** (Pages 15 - 20)

   The Board are invited to review the latest position against the Annual Business Plan for 2019/20 (**LPG7**) as considered by the Pension Fund Committee at their meeting on 6 September 2019.

   The Committee is RECOMMENDED to note the progress against the key service priorities included within the 2019/20 Business Plan.

8. **Risk Register** (Pages 21 - 26)

   This is the latest risk register as considered by the Pension Fund Committee on 6 September 2019 is attached (**LPB8**). The Board are invited to review the report and offer any further views back to the Committee.

   The Committee is RECOMMENDED to note the changes to the risk register and offer any further comments.

9. **Fund Valuation** (Pages 27 - 80)

The report (**LPB9**) updates the Pension Board on the work to date on the 2019 Valuation and the update of the Funding Strategy Statement. The Board are invited to review the draft Funding Strategy Statement and provide any initial comments to the Pension Fund Committee to be included in the final draft for formal consultation with Scheme Employers.

The Board is RECOMMENDED to note the latest position with regard to the 2019 Valuation, the key changes planned for the Funding Strategy Statement and to offer any comments to the Pension Fund Committee on the current Draft Funding Strategy Statement for them to consider when agreeing the final Draft for formal consultation with scheme employers.

10. **Employer Training** (Pages 81 - 84)

The report (**LPB10**) is included at the request of the Board at its last meeting. It sets out the current approach to employer training and invites comments from the Board on any changes to the current training programme in terms of both content and the mechanisms for delivering the training, to maximise the effectiveness of the overall arrangements.

The Board is RECOMMENDED to note the current position on employer training and to offer any insights and comments to support the development of any future changes in approach, including those issues covered in paragraph 9 above.

11. **Items to Include in Report to the Pension Fund Committee**

Following the request from the new chairman of the Pension Fund Committee, there is now a standing item on the Committee agenda for this Board to report back to the Committee. The Board are invited to confirm the issues they wish to include in their latest report to the Committee.

12. **Items to be Included in the Agenda for the next Board Meeting**

Members are invited to identify any issues they wish to add to the agenda of the next meeting of this Board.

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 12 July 2019 commencing at 10.30 am and finishing at 12.30 pm

Present:

Voting Members:	Mark Spilsbury – in the Chair
	Alistair Bastin Stephen Davis Lisa Hughes Councillor Bob Johnston Sarah Pritchard

Officers:

Whole of meeting	S. Collins and G. Warrington
Part of meeting	
Agenda Item	**Officer Attending**

The Board considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

29/19 WELCOME BY CHAIRMAN

(Agenda No. 1)

The Chairman welcomed all to the meeting.

30/19 APOLOGIES FOR ABSENCE

(Agenda No. 2)

Councillor Johnston asked what was happening regarding the vacancy on the Board following results in the recent district council elections.

Members were advised that the process to appoint a replacement had started and it was expected that the situation would be resolved soon.

31/19 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE OPPOSITE

(Agenda No. 3)

There were no declarations of interest.

32/19 MINUTES

(Agenda No. 5)

The minutes of the meeting held on 26 April 2019 were approved and signed as a correct record.

With regard to Minute 22/19 Employer Management - Improvement Plan Mr Collins confirmed that the Plan had not been updated since June as requested as targets had been amended. It was anticipated that that would be done by September.

33/19 EXCLUSION OF PRESS AND PUBLIC

(Agenda No. 6)

RESOLVED: that the public be excluded for the duration of item 7 in the Agenda since it was likely that if they were present during that item there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it had been considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

34/19 EXEMPT MINUTES

(Agenda No. 7)

The exempt minutes of the meeting held on 26 April were approved and signed.

Mr Collins gave an update with regard to Edwards and Ward. There had been a number of late returns which had been accepted and work was continuing to validate those. The issue was now between staff members and Edwards and Ward and he would be contacting Unison to see how they wished to proceed and undertook to copy in the Branch Chairman.

35/19 ANNUAL REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 8)

The Board considered (LPB8) a report setting out the work of the Local pension Board for the last year and the key issues considered during 2018/19 and the work programme for 2019/20.

RESOLVED: to approve the Local Pension Board Annual Report for 2019/20.

36/19 EMPLOYER MANAGEMENT - IMPROVEMENT PLAN

(Agenda No. 9)

The Board considered (LPB9) a report setting out the latest position against objectives and milestones as set out in the Improvement Plan.

Some concern regarding the availability of key performance indicators to enable the Board to assess progress. Performance against standard KPIs had dropped whilst the backlog of work had been addressed. Interim targets had been set to allow progress to restoring performance to be addressed. Regular reports are to be made on KPIs.

Mr Collins highlighted continuing problems with the standard of returns with 46% failing to meet basic tolerance tests and needing to be returned. There were still a number of mistakes being repeated all of which had put a great deal of pressure on staff resources.

His team had worked closely with HR in order to address issues with recruitment and retention. Regarding turnover of staff there was no common theme for staff leaving but it been difficult to deal with workload over the last few years.

RESOLVED: to note the latest position regarding implementation of the Improvement Plan.

37/19 REVIEW OF THE ANNUAL BUSINESS PLAN

(Agenda No. 10)

The Board considered (LPB10) a review of the latest position against the Annual business Plan for 2019/20 as considered by the Pension Fund Committee in June 2019.

Mr Collins updated on the development of the Brunel partnership and the appointment of a new CEO there.

Board members discussed the development of the Brunel portfolios and the desire to switch assets from the current portfolio to low carbon portfolios, transparency around the work of the fund in delivering its ESG policy as included in the Investment Strategy statement; the possibility of mandatory training for members and appointment of named substitutes who would be required to receive the same training as Committee members.

RESOLVED:

(a) note progress against the key service priorities included within the 2019/20 Business plan; and

(b) approve the amendment to the measure of success in respect of Service Priority 5 – Improve Scheme Member Communications as set out in paragraph 19 of the report LPB10

38/19 RISK REGISTER

(Agenda No. 11)

The Board had before it the latest Risk Register as considered by the Pension Fund Committee on 7 June 2019 with an invitation to review and offer any further views.

Mr Collins advised that it was proposed to move back to a system of traffic lighting issues in the next version.

RESOLVED: to note the changes proposed to be made to the risk register.

39/19 ANNUAL REVIEW OF FUND POLICIES

(Agenda No. 12)

The Board had before it a paper (LPB12) which covered the annual review of the Fund's policy documents as agreed by the pension Fund Committee on 7 June 2019 and which had been amended to reflect the revised recommendations agreed by the Committee.

Mr Collins presented the report.

He confirmed the Funding Strategy Statement would be reviewed again this year and brought back to the Board at its next meeting.

Regarding the Triennial Valuation and Strategic Asset Allocation Review he confirmed that he would be contacting scheme member representatives on the Board to arrange a meeting to feed views in as appropriate.

Board members highlighted a potential area of concern regarding the need to provide continuity particularly as the end of the current 4-year cycle was approaching.

Councillor Johnston referred to an added pressure arising from the potential for political change in what were volatile political times as evidenced by the recent local elections.

Mr Collins advised that a period of office could be extended and staggered so not all board members reached the end of their tenure at the same time.

RESOLVED: to note the Statement and amendments to it.

40/19 MONITORING FUND MANAGER FEES

(Agenda No. 13)

The report (LPB13) set out the latest data on Fund manager Fees. The report had been submitted following a request by the Board for a report every 6 months.

Mr Bastin tabled a spreadsheet highlighting a number of underperforming fund managers to an alarming level quoting one example to 5.2% below target with a loss to the fund of some £8.2 million as opposed to £13million profit if it had hit its benchmark. Some managers had underperformed for the last 5 years. Consequently the fund could be missing out on tens of millions.

Mr Collins accepted there were annual fluctuations and the Pension Fund Committee had felt that it was not always the best move to change managers to frequently for those reasons and in some years we were well above the benchmark and annual figures did not always present the best picture. The benchmark was the aggregate figure of all managers.

The Chairman advised some caution insofar as some managers outperformed others over a 5 year period and under the Brunel arrangements there should be more of a balance from a wider more diversified range. Also 2 of the underperformers in the table spreadsheet would moving to Brunel.

Mr Collins advised that the next big Asset Management review would be presented to Committee next March.

Agreed to consider the information set out in the table papers and bring it back to Board members with a report setting out possible options for a 3 or 5 year review basis.

41/19 ITEMS TO INCLUDE IN REPORT TO THE PENSION FUND COMMITTEE
(Agenda No. 14)

The following items were agreed for report to the Pension Fund Committee:

1. The Board noted that the Oxfordshire Pension Fund had invested in the Brunel Pension Partnership passive global and UK equity portfolios but not in the low carbon portfolio. The Board requested that the Oxfordshire Pension Committee considers investing in the low carbon portfolio, in the context of reducing the Fund's carbon footprint and reducing climate risk, possibly funded by a reduction in the level of investments made in the global and UK equities passive portfolios.

2. Regarding the Pension Fund Business Plan 2019/20, the Pension Board was pleased that the Pension Committee had supported the change to the measure of success for service priority 5 to improved customer satisfaction.

3. Following a discussion of the Fund's Governance Policy and Governance Compliance Statement, the Board indicated its support for the proposition of having named substitutes for Pension Committee members. It also supported the need for a training plan for Committee members.

4. The Board requested that the Pension Committee consider the performance analysis (to follow), produced by a member of the Pension Board in relation to the agenda item on investment management fees, which was discussed at the Board meeting.

42/19 ITEMS TO BE INCLUDED IN THE AGENDA FOR THE NEXT MEETING OF THE BOARD
(Agenda No. 15)

Issues to be added to the Agenda for the next meeting of the Board:

Employer training
Valuation.

.... in the Chair

Date of signing ....

Division(s): N/A

LOCAL PENSION BOARD – 25 OCTOBER 2019

IMPROVEMENT PLAN

Report by the Director of Finance

RECOMMENDATION

The Board is RECOMMENDED to note the latest position with regard to the implementation of the Improvement Plan.

Introduction

1. At their March 2019 meeting the Pension Fund Committee received the final version of the Improvement Plan which had been signed off by the Pension Regulator. Quarterly update reports on progress against the Improvement Plan, have been presented to both the Committee and this Board.

2. At the last meeting of the Board it was requested that further information be presented on the business as usual targets, accepting that the Pension Fund Committee had agreed to reduce the targets over an interim period to reflect the reality of the current position, where performance had dropped below the standards set as the backlog of cases were resolved, and staff resources were prioritised to meet the regulatory targets in respect of the Annual Benefit Statements, and the 2019 Valuation requirements. The requested information is contained within this report.

Progress against Improvement Plan Milestones

3. The first two key objectives set out in the Improvement Plan were the issuance of 100% of the Annual Benefit Statements to both active and deferred members by the statutory deadline of 31 August 2019. It was noted that performance of 98% or above was likely to be sufficient to avoid the need to provide a breach of regulation report to the Pension Regulator for the Fund as a whole, though breach reports may still be required in respect of individual scheme employers.

4. The key tasks to enable this objective to be achieved were set out in the Improvement Plan. The key requirements were timely and accurate data returns from scheme employers and sufficient staff recruited within the Pension Services Team to process the data once received. The paperwork being sent out to scheme employers was reviewed with input from employers, and training sessions were made available. There was insufficient take up on these training sessions for them to be run.

5. Despite the preparation work, 90 end of year returns received from scheme employers failed the initial validation checks, including the check that the return

balanced to the contributions paid into the Fund over the course of the year. This represents just under half of the returns received (48%).

6. The delays in receiving accurate end of year returns created problems for both Pension Services and for all scheme employers, as we had to divert resources to support those employers where corrections were required to the return, and therefore were delayed in sending out subsequent queries to all employers. This shortened the period available to resolve the queries on the data itself, including cases where employers have previously forgotten to submit starter or leaver forms, or where pay levels have moved outside tolerance levels between years.

7. Staff from within the Benefits Team in Pension Services were temporarily transferred to the Employers Team to support the work in resolving queries, and in most cases, employers have responded promptly to the queries.

8. There have been a small number of employers where responses have been delayed beyond deadlines set, and where fines have been issued under the Administration Strategy. Two employers were fined £150 for the late return of their End of Year data, where they missed both the initial deadline and a follow up deadline. Four employers were fined £75 for late responses to queries, again where they missed both an initial and follow up deadline. Two employers were fined £150 each, comprising of £75 for delays in responding to queries, and then a further £75 when Pension Services were required to re-do the work once submitted.

9. The position with respect to Edwards and Ward is still under investigation, both in respect of the quality of data submitted and the issue of those staff not entered into the LGPS at the point of TUPE.

10. As at 31 August 2019 we had issued 19,282 annual benefit statements to active members, representing 99.3% of all active members due a statement as at 31 August 2019. The Pension Fund Committee determined that this was a significant achievement and did not regard the 0.7% shortfall as a material breach of their responsibilities which needed to be reported to the Pension Regulator.

11. There were 108 outstanding statements where there was an unresolved query on the scheme members record. These were largely a small number of staff across a number of employers and did not represent a material failing by any party. There were though 8 statements relating to the Camden Society which represented all but 1 of the statements due, reflecting material failings in resolving the outstanding issues for this employer. This therefore will lead to a breach report being sent to the Pension Regulator in respect of this employer. There were a further 29 outstanding statements were the delay was the result of the on-going issues with Edwards and Ward, who were already subject to a breach report to the Pension Regulator.

12. Following the conclusion of the work to issue the statements by the end of August deadline, a post project review has been undertaken, including a

questionnaire to scheme employers to determine what further lessons can be learnt from this year's exercise. This, alongside the roll out of iConnect should lead to further improvements in the process for the 2019/20 statements.

13. The third key objective within the Improvement Plan was to issue Pension Savings Statements to those members who may face a tax charge in respect of the accrued benefits by the statutory deadline of 6 October 2019. By the deadline we had issued 76 Pension Savings Statements, which based on the information provided to us by the scheme employers represents 100% of the statements due to be issued.

14. The last two key objectives were in respect of our data quality scores, where we have set targets of 98% for both Common Data and Scheme Specific Data when we report to the Pension Regulator, expected to be in November 2019. These targets were set on the basis of the definitions used in compiling our reports last year, though a key action in the Improvement Plan was to work with the Scheme Advisory Board to produce a standard set of definitions, to be used consistently across the LGPS, which measured data quality for those items required to enable us to fulfil our statutory responsibilities.

15. On 4 July 2019, the working group set up to develop a set of standardised scheme specific data issued their proposals. These have been developed in conjunctions with system suppliers, representative administering authorities, fund actuaries and the Pension Regulator. The number of data fields to be tested has been reduced from 47 to 22. Further guidance on completing the tests is expected shortly.

16. In line with the steps within the Improvement Plan, we have run an interim set of data quality checks on the current data set. This run was undertaken following the submission of the data to the Fund Actuary for the current Valuation exercise, but before completion of the resolution of the individual queries associated with the year end returns (the Actuary is happy to work with the data received and make assumptions where necessary to completion the valuation exercise).

17. The scores from the current run were:

- Common Data 95.3%
- Scheme Specific Data 96.3%

18. The scores from last year's exercise which are not directly comparable were 96.9%, and 94.6% respectively.

19. The main areas where tests failed were in national insurance numbers and address details for common data, and CARE data and contracted out data (including guaranteed minimum pension GMP data) for scheme specific data. Follow up work will now be undertaken to correct as many of these records as possible before the final run of the tests to submit data to the Pension Regulator. This includes the use of an address tracing agency to identify missing addresses. Given the delays in the GMP project resulting from changes to the

timetable by the Department of Works and Pensions, it may not be possible to address all the outstanding queries in this area by the November return.

20. Indications from Heywoods who ran the tests for us are that our results are currently at the higher end in respect the tests they have run. With the further work identified to further improve our scores before submission is due to the Pension Regulator we are confident that no follow up action will be required.

21. The second set of service measures in the Improvement Plan relate to the business as usual performance measures. These are contained at Annex 1 and show the performance levels on a month by month basis across each of the key tasks since the start of this financial year.

22. The initial columns of the table show for each of the key tasks where there is a legal requirement to complete the task within a given timescale and our own Service Level Agreement deadline. The SLA performance target then sets out the percentage of cases where we expect to complete the task within the SLA deadline. There are then two additional columns to reflect the Committee's decision for a phased return to the long term target levels, from the sub-standard levels achieved during 2018/19 whilst resources had been diverted to dealing with the backlog of work and cleaning our member data.

23. The actual monthly performance figures shown in the subsequent columns, indicate that our performance levels have returned to standard at a much quicker rate than expected when the interim targets were set. From a position in April 2019 when 83.45% of tasks were completed within the SLA deadline, there has been steady improvement to a position where 97.37% of tasks were completed within the SLA deadline. All tasks apart from Deaths met their standard SLA performance target in September, with 93.3% of Deaths Tasks completed within the SLA deadline against a target of 95%.

24. A number of factors have been identified as having contributed to the rapid return of performance levels in line with the standard SLA targets. These include the greater automation of processes, both in terms of the receipt of data from scheme employers through iConnect and the communication with Members through Members Self Service. It is also the case that the clearance of the old backlogs and the improvement in the data quality have meant that current tasks have become easier to complete as there is a reduced requirement to query historic records before completing calculations.

25. Two other areas were covered within the Improvement Plan. The first related to the significant levels of risk within the Plan associated with the level of vacancies held across the various teams within Pension Services. Following a review of our job descriptions and advertising policy, we concluded a successful recruitment round and whilst there have been two further resignations from the Team, we are now working much closer to the established levels. It will take some time though for all the new staff to be fully trained, and the team to operate at full capacity. However in light of the improved performance levels noted on the business as usual work, we are currently reviewing the staffing establishment and will continue to hold some posts vacant on the basis that

these may no longer be required in light of the more effective operational processes.

26. The final area of the Improvement Plan is the iConnect project, which is progressing well. At the time of writing this report, 67 scheme employers have gone live with iConnect. These are mainly fairly small employers from phase 1, all the Parish and Town Councils from phase 2, and a number of smaller schools and outsourced providers from phase 3. There are a couple of the larger academy trusts who are due to go live shortly. The rest of the phase 3 employers should be live by the end of 2019.

27. We continue to work with Oxford Brookes University, our second largest employer, initially included in phase 1. It is hoped that the University will also be live by the end of 2019. Planning for the phase 4 group is well underway including Oxford City Council and the Access Group who provide payroll services to several academies. These are on target for the end of this financial year.

28. There will be a tidy up phase 5 to pick up new employers, and any that are unable to complete in the first 4 phases, e.g. one of the District Councils has asked for a delay to phase 5 to allow them to change payroll provider later this financial year. All employers should be live on iConnect in line with the 31 August 2020 target date.

29. The Project Team is continuing to develop the support tools and website information from those employers who have gone live, as well as looking at the implications for the ways of working within the Pension Services Teams to reflect the increased automation of the process.

LORNA BAXTER
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

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Benefit Adminisation Monthly SLA Statistics

Subject	Legal Deadline	SLA Deadline	SLA Target	Temporary SLA Target Apr - Aug	Temporary SLA Target Sep- Dec	Apr-19 Total Number Completed	Apr-19 % Achieved in SLA deadline	Apr-19 % Achieved in Legal deadline	May-19 Total Number Completed	May-19 % Achieved in SLA deadline	May-19 % Achieved in Legal deadline	Jun-19 Total Number Completed	Jun-19 % Achieved in SLA deadline	Jun-19 % Achieved in Legal deadline	Jul-19 Total Number Completed	Jul-19 % Achieved in SLA deadline	Jul-19 % Achieved in Legal deadline	Aug-19 Total Number Completed	Aug-19 % Achieved in SLA deadline	Aug-19 % Achieved in Legal deadline	Sep-19 Total Number Completed	Sep-19 % Achieved in SLA deadline	Sep-19 % Achieved in Legal deadline
Deaths	Notify dependants of death benefits within 2 months from date of becoming aware of death	10 working days	**95%**	**75%**	**85%**	36	91.67%		91	79.12%	TBC	58	68.97%	TBC	38	78.95%	TBC	71	80.28%	TBC	60	93.33%	TBC
Retirements	Notify amount of retirement benefits; within 1 months if on or after NPA; or 2 months from date of retirement if before NPA. Retirement Quote no more than 2 months from date of request unless already abother request has been made within 12 months	10 working days	**95%**	**75%**	**85%**	91	84.62%		122	84.43%	100.00%	144	92.36%	100.00%	105	95.24%	100.00%	116	92.24%	100.00%	78	96.15%	100.00%
Divorce	Provide a quotation 3 month	10 working days	**95%**	**75%**	**85%**	9	100.00%		24	100.00%		12	91.67%		15	100.00%		13	100.00%		8	100.00%	
Interfund In	N/A	10 working days	**90%**	**70%**	**80%**	27	62.96%		38	50.00%		81	65.43%		74	93.24%		40	100.00%		32	93.75%	
Transfer In	Obtain transfer information and provide a quotation within 2 months from date of request	10 working days	**90%**	**70%**	**80%**	19	78.95%		27	55.56%	100.00%	55	80.00%	94.74%	46	71.74%	84.78%	60	96.67%	96.67%	36	100.00%	100.00%
Interfund Out	N/A	10 working days	**95%**	**75%**	**85%**	30	90.00%		21	80.95%		24	87.50%		24	95.83%		53	90.57%		35	97.22%	
Transfer out	Provide a quotation 3 month	10 working days	**95%**	**75%**	**85%**	37	94.59%		43	95.35%	100.00%	39	94.87%	100.00%	24	95.83%	100.00%	43	95.35%	100.00%	36	100.00%	100.00%
Member Estimate	Provide retriement quote no more than 2 months from date of request unless there has been a request already in last 12 months	10 working days	**90%**	**70%**	**80%**	73	79.45%		119	92.44%	100.00%	82	97.56%	100.00%	70	87.14%	100.00%	97	97.94%	100.00%	72	100.00%	100.00%
HR Estimate	N/A	10 working days	**90%**	**70%**	**80%**	8	87.50%		16	100.00%		13	92.31%		15	100.00%		14	92.86%		9	100.00%	
Refunds	N/A	10 working days	**95%**	**75%**	**85%**	43	83.72%		59	62.71%		34	100.00%		50	100.00%		90	95.56%		62	96.77%	
Leavers*	Inform members who left th scheme of their leaver rights and options no more than 2 months from date of notification	40 working days	**90%**	**70%**	**80%**	206	77.18%		492	87.80%	87.80%	580	91.55%	91.55%	625	80.80%	80.80%	536	95.34%	95.34%	378	97.62%	97.62%
Re-employments**	N/A	40 working days	**90%**	**70%**	**80%**	154	70.78%		125	80.00%		64	71.88%		245	81.22%		156	98.72%		143	90.91%	
Assistants***	N/A	10 working days	**90%**	**70%**	**80%**	0	TBC	TBC	21	95.00%		191	100.00%		278	100.00%		263	98.48%		248	100.00%	
Starters (PPF)	Send notification of joining	20 working days	**95%**	**75%**	**85%**	0	TBC	TBC	0	TBC	TBC	0	TBC	TBC	0	TBC	TBC		TBC	TBC		TBC	TBC
Totals / Average Overall						733	83.45%		1198	88.61%	97.56%	1377	87.24%	98.31%	1609	90.77%	98.31%	1552	94.92%	98.40%	1197	97.37%	99.52%

* Frozen, Deferred, Concurrent

** Elect to Separate, Re-emp quote, Re-emp Actual,

*** Address, Name, Nomination, IFA Requests

SLA not met

Temp SLA met

Standard SLA met

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Division(s):N/A

PENSION FUND COMMITTEE – 6 SEPTEMBER 2019

BUSINESS PLAN 2019/20

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the progress against the key service priorities included within the 2019/20 Business Plan.**

Introduction

2. This report sets out the progress against the key objectives within the business plan for the Pension Fund for 2019/20, as agreed by the Committee at their March meeting.

3. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2019/20 and remain consistent with those agreed for previous years. These are summarised as:
   - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensons Regulator
   - To achieve a 100% funding level
   - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
   - To maintain as near stable and affordable employer contribution rates as possible.

4. Part A of the plan sets out the broad service activity undertaken by the Fund. As with the key objectives, these are unchanged from previous years. The service priorities for the forthcoming financial year are then set out in more detail in Part B. These priorities do not include the business as usual activity which will continue alongside the activities included in Part B.

Service Priorities for 2019/20

5. Five key service priorities were included in Part B of the Business Plan for 2019/20. Each of these was an extension of the 2018/19 priorities, amended to reflect the progress during 2018/19. A summary of the progress against each of the 5 key priorities is as follows.

6. <u>Development of the Brunel Pension Partnership</u> – There were three key elements to the work within the Brunel Pension Partnership during 2019/20, being reporting and assurance, the transition of assets and the delivery against the business case. Each of these can be looked at in turn.

7. In respect of reporting and assurance, the key priority for 2019/20 is seen as the development of comprehensive client reports, which will provide assurances on the processes and performance of the Brunel company, as well as on the investment performance itself. This is seen as increasingly important as more assets are transition to the Brunel portfolios and Brunel takes on its full responsibility for the selection and monitoring of the underlying fund managers.

8. Brunel have developed the initial investment performance reports and these are currently made available to Officers. This Committee offered no comments on the format of the Fund specific report presented to their last meeting, and it is expected that this will become a standard agenda item as more assets transition to Brunel. A report covering all Brunel portfolios is also presented to the Client Group and to the Brunel Oversight Board.

9. The Client Group have also worked with Brunel to develop a series of reports to enable the Client Group and the Brunel Oversight Board to assess the performance of Brunel itself and gain assurance that Brunel has a series of robust policies and procedures and is acting in accordance with them. These reports have now become a standard agenda item for these meetings, and will increasingly become the main focus as the transition to business as usual is completed.

10. In respect of asset transition, Brunel have concluded the appointments to the emerging markets portfolio (though there has not been a public announcement at the time this report was written) and are planning the transition. The Investment team have also made a proposal in respect of the Fund Managers to appoint to the global high alpha portfolio and this is currently going through the formal sign off processes within Brunel and the Client Group. The transition for this portfolio is expected to conclude by the end of November.

11. Oxfordshire will transition assets to these two portfolios once both are open to investment. It was initially intended to source this transition from closing the UBS global equity portfolio. However, we have recently been informed of changes planned at Wellington, which will lead to the closure of their global equity product in which we are invested at the end of December. We will therefore source the transition to the emerging market and high alpha portfolios at Brunel from the Wellington portfolio.

12. On the Private Markets, the Brunel team continue to identify new commitments in respect of the private equity, infrastructure and secured income portfolios that Oxfordshire have allocated to. The Team remain on target to have fully committed our allocation to these portfolios by the end of March 2020, although it will take longer for the underlying Managers to call down the full funds.

13. A key development in the developing Brunel Partnership was the resignation of Dawn Turner as Chief Executive Officer of the Brunel Company, announced in July. Brunel are currently in the process of recruiting a successor to Dawn

who leaves at the end of September, and interim arrangements have been agreed to ensure a smooth transition. There are on-going discussions between shareholder representatives, members of the Oversight Board and Client Group and Brunel to ensure the arrangements going forward meet the needs of all staeholders.

14. 2019 Valuation – There is a fuller report elsewhere on today's agenda which covers progress on the 2019 Valuation and the key issues which will need to be covered in a revised Funding Strategy Statement to be presented to the December meeting of this Committee.

15. Data Quality - The third priority focusses on delivery of the Improvement Plan and ensuring all services are delivered to scheme members in accordance with our regulatory responsibilities and our service level agreements. Review on progress on this objective is covered in the Improvement Plan report elsewhere on this agenda.

16. Monitoring Compliance with the Fund's Policies - This fourth priority centres around the need to make more transparent the work of the Fund in delivering its ESG Policy as included in the Investment Strategy Statement. One of the measures of success was the availability of benchmark data and regular quarterly reporting.

17. The Brunel Investment Performance report now includes a page on responsible investment issues for each of the Brunel listed portfolios. This includes information on the carbon intensity of each portfolio, an independent assessment of the wider ESG performance of the companies within the portfolio, and a short commentary from Brunel on key issues identified.

18. Over time, the presentation of this data will be an important step in developing greater transparency about the impact of the current ESG policy and provide a benchmark against which the Committee can track questions and identify issues for follow up with Brunel and the underlying Fund Managers. Unfortunately, there have been technical issues identified in the information included in the initial reports, and Brunel are reviewing the processes for the compilation of the reports to resolve them. This information also needs to be considered alongside the voting and engagement reports being developed by Brunel to develop a full picture of the impact of the current policy.

19. The draft reports will be an important element of the Climate Change workshop that this Committee agreed to hold at its last meeting. They will enable the Committee to determine what further information they wish to receive on a regular basis, and how they wish to use the information to drive future policy.

20. Improving Scheme Member Communications - The final priority included in the 2019/20 Business Plan is the continued development of Member Self Service (MSS). This should allow scheme members access to their records to undertake amendments to their core data and view key information on their pension benefits.

21. In terms of progress, MSS is now the main means of distributing Annual Benefit Statements, pensioners P60's and their monthly payslips, letters to deferred members, retirement quotes and pension estimates. We continue to send out paper correspondence in these cases where the Member has elected to still receive all correspondence by post.

22. The next development will be the option for Members to log in and obtain estimates of their future pension benefits under a number of scenarios. This will be developed and tested over the Autumn before going live later this year.

Budget 2019/20

23. Annex 1 sets out the latest monitoring position against the budget agreed by the Committee at its March meeting. At this early stage of the year most expenditure headings are expected to be in line with budgets. The main variation is on the staffing costs within the Pension services Team where a £150,000 underspend is estimated, reflecting the levels of vacancies carried to date.

24. The other variations are in investment management fees, which in part reflect the new rates obtained by Brunel from their tendering of the new portfolios, a small overspend in Actuary fees reflecting the more detailed work they have undertaken in respect of the major scheme employers, and a small underspend on the costs of the Committee and Local Pension Board.

Training Plan

25. A Training Plan for Committee Members was not included within the Business Plan. The issue of Member training is covered elsewhere on today's agenda.

LORNA BAXTER
Director of Finance

Contact Officer: Sean Collins - Tel: 07554 103465
August 2019

2019/20 Pension Fund Budget- Q1 Update

	Budget	YTD	%	Forecast Outturn	Variance
	2019/20	2019/20		2019/20	2019/20
	£'000	£'000		£'000	£'000
Administrative Expenses					
Administrative Employee Costs	1,576	345	22%	1,426	-150
Support Services Including ICT	634	449	71%	634	0
Printing & Stationary	72	12	17%	72	0
Advisory & Consultancy Fees	160	16	10%	160	0
Other	60	4	6%	60	0
Total Administrative Expenses	**2,502**	**826**	**33%**	**2,352**	**-150**
Investment Management Expenses					
Management Fees	8,484	5	0%	8,426	-58
Custody Fees	0	0		0	0
Brunel Contract Costs	1,043	535	51%	1,043	0
Total Investment Management Expenses	**9,527**	**541**	**6%**	**9,469**	**-58**
Oversight & Governance					
Investment Employee Costs	254	47	19%	254	0
Support Services Including ICT	11	2	18%	11	0
Actuarial Fees	160	88	55%	180	20
External Audit Fees	35	0	0%	35	0
Internal Audit Fees	15	0	0%	15	0
Advisory & Consultancy Fees	95	0	0%	95	0
Committee and Board Costs	49	3	5%	40	-9
Subscriptions and Memberships	50	0	0%	50	0
Total Oversight & Governance Expenses	**669**	**141**	**21%**	**680**	**11**
Total Pension Fund Budget	**12,698**	**1,507**	**12%**	**12,501**	**-197**

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Division(s): N/A

PENSION FUND COMMITTEE – 6 SEPTEMBER 2019

RISK REGISTER

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the changes to the risk register and offer any further comments.**

Introduction

2. At their meeting on 11 March 2016, the Committee agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. Any comments from the Pension Board are included in their report to this meeting.

3. The risk register presented to the March 2016 Committee meeting was the first produced in the new format, which introduced the concept of a target level of risk and the need to identify mitigation action plans to address those risks that were currently not at their target score. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any changes to the risks which have arisen since the register was last reviewed.

4. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan for 2019/20. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

5. At their June meeting, the Committee asked for a column indicating direction of travel for the risk and a RAG status to be reintroduced. This has been actioned for this latest risk register.

6. The Direction of Travel arrow indicates whether the overall risk rating score is increasing (the impact worsening and/or the likelihood increasing), decreasing or has stayed stable.

7. The RAG status reflects the importance of the risk at the current time, with a Red allocation indicating the risk needs urgent attention, an Amber allocation indicating that the risk needs to be kept under regular review, whereas a Green allocation indicates that no action is required in the short term. Given the long term nature of pensions work, it is possible for the highest rated risks to be scored as Green if there is mitigation action underway, and the risk is seen as long term in nature.

Comments from the Pension Board

8. At their meeting in July 2019, the Pension Board made no specific comments in respect of the latest risk register.

Latest Position on Existing Risks

9. As previously reported, the first three risks on the risk register reflect the long term risks associated with a mismatch of assets and liabilities resulting in a risk of not closing the current funding deficit and having insufficient funds to meet pension liabilities as they fall due. Mitigation of these risks is tied into the 2019 Valuation process, which is involving greater engagement with the main scheme employers than in previous valuation processes to understand any factors which may impact on the future pension liabilities, the employer's own attitude to risk and the appetite for different investment strategies to reflect difference employer circumstances. This work will reduce the likelihood of the major risks to the Fund, but the scores will not be updated until the 2019 Valuation process has been concluded.

10. Risk 6 has been shown as Amber status reflecting the increased attention to ESG issues including Climate Change both locally and nationally. The Committee though are fully aware of the risk and the Climate Change workshop agreed at the last meeting of the Committee remains the appropriate initial mitigation action, with further mitigation to be determined as the outcome of the workshop.

11. The risk score for risk 9 has been reduced from 4 to 3 reflecting the improvements seen in the data quality. This has been evidenced both by the recent Data Quality reports as covered in the Improvement Plan report elsewhere on this agenda, and the feedback from Hymans Robertson on the quality of the data recently submitted to them for the 2019 Valuation.

12. The risk score on risk 12 has been reduced from 8 to 4 and is now at target. This reflects the recent successful recruitment round and the current staffing levels and the improvements seen in the business as usual performance indicators as covered in the Administration report.

13. Finally, the status of risk 13 has been shown as Amber reflecting the recent Good Governance report presented to the Scheme Advisory Board which recommends the Government bring in statutory guidance to require all Committee members to have the same level of knowledge and understanding as Board members. There is a report elsewhere on the agenda which seeks to mitigate this risk by introducing a mandatory training policy for Committee members.

LORNA BAXTER
Director of Finance

Contact Officer: Sean Collins Tel: 07554 103465 August 2019

Risk Register

Identification of Risks:

These are the risks that threaten the achievement of the Pension Fund's objectives. Risks have been analysed between:

- Funding, including delivering the funding strategy;
- Investment;
- Governance
- Operational; and
- Regulatory.

Key to Scoring

	Impact	Financial	Reputation	Performance
5	Most severe	Over £100m	Ministerial intervention, Public inquiry, remembered for years	Achievement of Council priority
4	Major	Between £10m and £100m	Adverse national media interest or sustained local media interest	Council priority impaired or service priority not achieved
3	Moderate	Between £1m and £10m	One off local media interest	Impact contained within directorate or service priority impaired.
2	Minor	Between £100k and £500k	A number of complaints but no media interest	Little impact on service priorities but operations disrupted
1	Insignificant	Under £100k	Minor complaints	Operational objectives not met, no impact on service priorities.

Likelihood

4	Very likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)
2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it could (less than 10% probability)

RAG Status/Direction of Travel

	Risk requires urgent attention
	Risks needs to be kept under regular review
	Risk does not require any attention in short term
↑	Overall Risk Rating Score is Increasing (Higher risk)
↔	Risk Rating Score is Stable
↓	Overall Risk Rating Score is Reducing (Improving Position)

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
1	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Long Term - Pension deficit not closed.	Service Manager	Triennial Asset Allocation Review after Valuation.	4	2	8	↔	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	March 2020	4	1	4	Sept 2019	Now working with new Actuary and Major Employers on aligning Investment and Funding Strategies as part of the 2019 Valuation.
2	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	2	8	↔	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	March 2020	4	1	4	Sept 2019	Actuary has developed draft long term cash forecast, and now looking at sensitivities, and income generating investment options.
3	Investment Strategy not aligned with Pension Liability Profile	Financial	Poor understanding of Scheme Member choices.	Long Term - Pension deficit not closed. Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	3	2	6	↔	Develop Improved Management Reports to benchmark, and monitor opt outs, 50:50 requests etc.	September 2018	3	1	3	Sept 2019	Development of reports still outstanding.
4	Under performance of asset managers or asset classes	Financial	Loss of key staff and change of investment approach.	Long Term - Pension deficit not closed.	Financial Manager	Quarterly review Meeting, and Diversification of asset allocations.	3	2	6	↔			3	2	6	Sept 2019	At Target – Needs to be kept under review as responsibility for Fund Manager monitoring switches to Brunel.
5	Actual results vary to key financial assumptions in Valuation	Financial	Market Forces	Long Term - Pension deficit not closed.	Service Manager	Moderation of assumptions at point of valuation. Asset allocation to mirror risk. Sensitivity analysis included in Valuation report.	3	2	6	↔			3	2	6		At Target
6	Under performance of pension investments due to ESG factors, including climate change.	Financial	Failure to consider long term financial impact of ESG issues	Long Term - Pension deficit not closed.	Financial Manager	ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions.	4	2	8	↔	Improve performance monitoring information on ESG scores within current investment portfolios, to identify any policy breaches by fund managers.	June 2019	4	1	4	Sept 2019	Climate Change Workshop agreed for the Autumn to feed into Brunel's Climate Change Policy, and local review of Investment Strategy Statement and Asset Allocation.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
7	Loss of Funds through fraud or misappropriation.	Financial	Poor Control Processes within Fund Managers and/or Custodian	Long Term - Pension deficit not closed	Financial Manage	Review of Annual Internal Controls Report from each Fund Manager. Clear separation of duties.	3	1	3	↔			3	1	3	Sept 2019	At Target – Needs to be kept under review as responsibility for Fund Manager monitoring switches to Brunel.
8	Employer Default - LGPS	Financial	Market Forces, increased contribution rates, budget reductions.	Deficit Falls to be Met By Other Employers	Pension Services Manager	All new employers set up with ceding employing under-writing deficit, or bond put in place.	3	2	6	↔			3	2	6		At Target
9	Inaccurate or out of date pension liability data – LGPS and FSPS	Financial & Administrative	Late or Incomplete Returns from Employers	Errors in Pension Liability Profile impacting on Risks 1 and 2 above.	Pension Services Manager	Monitoring of Monthly returns	3	1	3	↑			3	1	3	Sept 2019	At Target - Latest Data Quality Reports indicate data quality now of good standard – also reflected in feedback from Fund Actuary on Valuation Data.
10	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	3	1	3	↔			3	1	3		At Target
11	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative	Late or Incomplete Returns from Employers	Improvement Notice and/or Fines issued by Pension Regulator.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	4	1	4	↔			4	1	4	Sept 2019	At Target – but look for further improvement through implementation of iConnect.
12	Insufficient resources to deliver responsibilities- – LGPS and FSPS	Administrative	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget Review as part of Business Plan.	4	1	4	↑			4	1	4	Sept 2019	At Target – Staffing Levels improved and key performance indicators showing significant improvement.
13	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Poor Training Programme	Breach of Regulation	Service Manager	Training Review	4	2	4	↔	Greater urgency given increased attention to the issue. Training Policy developed.		4	1	4	Sept 2019	Committee to consider mandatory training.
14	Insufficient Skills and Knowledge amongst – LGPS and FSPS Officers	Administrative	Poor Training Programme and/or high staff turnover	Breach of Regulation and Errors in Payments	Service Manager	Training Plan. Control checklists.	3	1	3	↔			3	1	3		At Target
15	Key System Failure – LGPS and FSPS	Administrative	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme	4	1	4	↔			4	1	4		At Target

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
16	Breach of Data Security – LGPS and FSPS	Administrative	Poor Controls	Breach of Regulation, including GDPR	Pension Services Manager	Security Controls, passwords etc. GDPR Privacy Policy.	4	1	4	↔			4	1	4		At Target
17	Failure to Meet Government Requirements on Pooling	Governance	Inability to agree proposals with other administering authorities.	Direct Intervention by Secretary of State	Service Manager	Full engagement in Project Brunel	5	1	5	↔			5	1	5		At Target
18	Failure of Pooled Vehicle to meet local objectives	Financial	Sub-Funds agreed not consistent with our liability profile.	Long Term - Pension deficit not closed	Service Manager	Full engagement in Project Brunel	4	1	4	↔			4	1	4		At Target
19	Significant change in liability profile or cash flow as a consequence of Structural Changes	Financial	Significant Transfers Out from the Oxfordshire Fund, leading to loss of current contributions income.	In sufficient cash to pay pensions requiring a change to investment strategy and an increase in employer contributions	Service Manager	Engagement with One Oxfordshire project and with other key projects to ensure impacts fully understood	4	1	4	↔			4	1	4	Sept 2019	At Target – Need to Review in light of current Government consultation to switch HE and FE employers to Designating Bodies.

Division(s): N/A

LOCAL PENSION BOARD – 25 OCTOBER 2019

2019 VALUATION

Report by the Director of Finance

RECOMMENDATION

The Board is RECOMMENDED to note the latest position with regard to the 2019 Valuation, the key changes planned for the Funding Strategy Statement and to offer any comments to the Pension Fund Committee on the current Draft Funding Strategy Statement for them to consider when agreeing the final Draft for formal consultation with scheme employers.

Introduction

1. Under the current regulatory framework, the Pension Fund is required to arrange for a Valuation of the Pension Fund every three years. The latest Valuation is based on the position as at 31 March 2019, with a requirement for the Fund Actuary to produce their report and certify the employer contribution rates for 2020/21 onwards by 31 March 2020.

2. In completing the Valuation, the Fund Actuary must have regard to the Committee's approved Funding Strategy Statement which sets out the key policies to be followed in determining the approach to the Valuation. As this is the first Valuation for Oxfordshire to be completed by Hymans Robertson, they have reviewed the current Funding Strategy Statement to bring it into line with their preferred approach to the Valuation.

3. This report provides information on the work done to date on the 2019 Valuation and discusses key changes included in the current draft of the Funding Strategy Statement (Annex 1). The revised Funding Strategy Statement itself will be presented to the December meeting of the Pension Fund Committee and the Pension Board is asked to provide any feedback on the current draft to that meeting, to enable the Committee to agree a final draft for formal consultation with all scheme employers. The final Funding Strategy Statement and Valuation results will be presented to the March meeting of the Pension Fund Committee.

Progress against 2019 Valuation Timetable

The Hymans Robertson Approach

4. There have been two major workstreams involved in the 2019 Valuation to date. One focusses on the Valuation data and the other on the Valuation approach. In respect of the Valuation data, the full data file was submitted to Hymans

Robertson in the first week of August following receipt of the end of year returns from the individual scheme employers.

5. As reported within the Improvement Plan report elsewhere on this agenda, considerable effort was required to correct the data to enable it to meet the basic validation tests applied by Hymans Robertson when receiving the data. Hymans Robertson have applied further tests to the data since receipt and are working with Pension Services to resolve some outstanding queries, but generally they have reported that the data is of good enough quality for the purposes of the Valuation, and is of a high standard in comparison to that received from other Funds. Hymans Robertson do have the right to increase the employer contribution rate for any individual scheme employer where they believe it is prudent to do so given concerns about the quality of the data.

6. In terms of approach to the Valuation, Hymans Robertson operate a risk-based framework. This more formally recognises the differences in employer risk profiles and covenant when setting employer contribution rates, ensuring a clear and auditable process. This risk-based approach looks at the likelihood of each employer being fully funded in the future under a wide range of different economic scenarios (5,000 scenarios are tested), rather than being focussed on one particular set of financial assumptions.

7. The contribution strategy therefore focuses on a suitable likelihood of achieving the funding target at the end of a specified period of time. For example, the contribution rate will be set such that in 75% of the potential economic scenarios, the employer will be fully funded in 20 years' time.

8. The funding target itself is a reflection of a number of future assumptions including investment returns, inflation and life expectancy. The funding target will be set such that the total assets held will be sufficient to meet all future pension liabilities. Depending on the risk profile for the employer, the Actuary can vary the level of prudence assumed in the financial assumptions and therefore in the funding target.

9. Similarly, the Actuary can reduce the time horizon to reach the funding target where they have concerns over the financial covenant of a scheme employer, where the employer has a fixed term admission agreement tied to a service contract, or where they have closed membership to the LGPS or are looking to significantly reduce membership through out-sourcing, re-structuring the workforce etc.

10. The likelihood of achieving the funding target will also vary depending on the risk profile and financial covenant of the employer, with the likelihood of achieving the funding target set higher for those employers deemed to be weaker.

11. An important part of the Hymans Robertson approach is the introduction of a stabilisation concept whereby the maximum variation in future contribution rates can be set. Any stabilisation criteria will need to be tested against the risk-

based model to ensure that the likelihood of reaching the funding target within the given time horizon remains within acceptable levels.

Current Position for Oxfordshire

12. Hymans Robertson have tested the approach working with the main employers in the Fund (the County, City and District Councils and Brookes University). The models (based on a roll forward of the 2016 Valuation data) have looked at the contribution rate required to ensure that each employer has a 75% chance of reaching their funding target. For the Councils the time horizon was set at 20 years, whereas for Brookes University, this was set at 15 years reflecting the slightly weaker financial covenant in that the University is not a tax raising body.

13. This work also looked at the impact of each employer making a one-off contribution to the Fund. This one-off contribution could either be viewed as a payment of contributions in advance, or an additional lump sum payment. In the case of the former, this would allow for a short-term reduction in contribution rate to assist with any cash-flow issues identified by the employer, whereas in the latter case the payment would be seen as allowing a permanent reduction in contribution rate (or a smaller increase in contribution rate, depending on the initial risk-based analysis).

14. Following this initial work, a variation to the current rates and adjustments certificate was agreed in respect of Brookes University, with the University making a one-off payment, with an immediate reduction in their contribution rate effective from 1 August 2019, in line with their new financial year.

15. Following the submission of the 2019 Valuation data at the beginning of August, Hymans Robertson have undertaken an initial run of the data to produce a whole Fund result. This suggests that there has been a significant improvement in the funding level based on better than assumed investment returns, and variations in other financial assumptions including salary increases and longevity. This though has been offset by a reduction in the assumed level of investment returns going forward.

16. These initial findings would support a general policy of maintaining employer contribution rates in line with those agreed at the 2016 Valuation. This though would not be the case for all employers within the Fund where the membership profile, risk profile or financial covenant is materially different to the Fund average.

Funding Strategy Statement

17. Officers have worked with Hymans Robertson to draft a revised Funding Strategy Statement to reflect the new risk-based approach being taken to the 2019 Valuation. The draft document (included at Annex 1) has also been expanded to produce a comprehensive document covering all aspects of employer funding, which can act as a single source of information to current and prospective scheme employers. The draft included at Annex 1 includes a

number of highlighted areas which are subject to further discussion with the Fund Actuary at a meeting with Officers on 23 October 2019, and an update from this meeting will be reported directly to the Board.

18. As well as setting out the principles of the risk-based approach, the draft document sets out some of the factors to be considered which would lead to variations between employers in terms of the funding target, time horizon or level of prudence in the likelihood of achieving the funding target.

19. Specific reference is made in the draft document to the uncertainty relating to the McCloud judgement. At the present time it is not known what form the remedy to the discrimination found by the Courts will take and therefore how benefits will need to be revalued going forward. Rather than make specific allowance within the 2019 Valuation for McCloud, it is therefore suggested that the uncertainty associated with McCloud is taken into account when setting the overall level of prudence in the calculations and in particular the level of certainty required that scheme employers will reach their funding target within the agreed time horizons.

20. Hymans Robertson have also identified several other areas which they suggested are reviewed before finalising the final Funding Strategy Statement. One of these is the pooling requirements which were initially designed as part of the Fund's risk management arrangements. Smaller employers were pooled to reduce the risk that they would face an unaffordable increase in their contribution rate from changes in their membership profile, or a high cost ill-health retirement, leaving a deficit to be met by the other scheme employers.

21. Pooling the small employers reduced the risk as all employers within the pool share the same experience, with changes in one employer not having a significant impact on the membership profile of the pool itself. The risk-based approach operated by Hymans Robertson offers alternative options to pooling to address the risk. Those employers who do not want to be linked to decisions made by other employers within their pool could opt out of the pool and mitigate the risk through more prudent assumptions elsewhere.

22. A linked issue is the ability of a scheme employer to mitigate the risk of a single high cost ill-health retirement by taking out an insurance arrangement. In many ways, pooling the small employers acts in the same way as an insurance fund. If an employer therefore wished to opt out of the pool, taken out the relevant insurance policy would be a suitable way to address the additional risk.

23. Another issue that Officers are reviewing alongside Hymans Robertson is the question of an alternative investment strategy for scheme employers. This would be appropriate where one or more scheme employers wish to take some investment risk off the table and are happy to accept a higher contribution rate for lower volatility. Similarly, if the Fund wishes to reduce the overall investment risk then one or more employers may wish to retain a higher risk strategy to help close their existing funding deficit.

24. The final issue discussed to date in the development of the Funding Strategy Statement are the risks associated with climate change associated with the pension liabilities. These include the impact of increasing global temperatures of life expectancy. At present it is proposed that these risks will be reflected in the risk-based modelling rather than a specific adjustment to the liability figures.

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HYMANS ROBERTSON

Oxfordshire Pension Fund

Draft Funding Strategy Statement

August 2019

Contents

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from [DATE POST CONSULTATION].

1.2 What is the Oxfordshire Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact [NAME & JOB TITLE] in the first instance at e-mail address [E-MAIL ADDRESS] or on telephone number [NUMBER].

2 Basic Funding Issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

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

2.2 What is each employer's contribution rate?

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

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

2.4 How does the calculated contribution rate vary for different employers?

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

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

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2.5 How is a funding level calculated?

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

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

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

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

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

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

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

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

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

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make no explicit allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms (see Section 3.3 note (b));
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

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

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher total contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

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

Page 46

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	**Local Authorities**	**Colleges & Universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Depends on covenant strength of employer	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 years	15 years or average future working lifetime if less	As per the letting employer
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	75%	75%	TBC%	TBC%	TBC%	TBC%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission

	changes for example), the cessation calculation principles applied would be as per Note (j).	to the circumstances of cessation – see Note (j).	agreement is terminated early by the contractor in which case the low risk exit basis may apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Max cont increase p.a.	Max cont decrease p.a.
"Standard" Council (i.e. with no material changes to structure of membership)	+1% of pay	-1% of pay
"Closed" Council (i.e. structured where a material proportion of the overall Council Pool is closed to new entrants)	+2%	-2%
University	+1%	-1%

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

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

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

Note (e) (Likelihood of achieving funding target)

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

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

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

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

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but will be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. However, if the academy has 50 or less members they are required to join the Academies Pool (this approach was arranged following a consultation exercise at the beginning of 2013). However, a small academy can seek the approval of the Administering Authority to permanently opt out of the Academies Pool where the Administering Authority is satisfied there is a suitable financial case, with all future pension liabilities appropriately underwritten.

vi. In addition, any academy with over 50 members also has the right to opt to join the pool on a permanent basis.

vii. The Administering Authority will also consider applications from any academies under a single "Umbrella" MAT to operate a single pool for all academies within the Trust. (The Administering Authority will treat a MAT as a single employer with its own individual employer contribution applicable across all schools within the Trust – subject to total members exceeding 50 as per (v) above).

viii. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT. Where the transfer is significant, both the transferring and receiving MAT's contribution rate will then be revised.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) to (viii) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays an agreed fixed contribution rate throughout its participation in the Fund (e.g. the same contribution rate as the letting employer) and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority's preferred approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority's Primary Rate on the contract start date. Upon cessation the contractor's assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

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

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

Note (j) (Admission Bodies Ceasing)

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 5% loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

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

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

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

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

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

3.4 Pooled contributions

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

- A Small Scheduled Bodies Pool, consisting of Town and Parish Councils.
- An Academies Pool (as noted under 3.3 note (g) above)
- A Small Admitted Bodies Pool
- Smaller Transferee Admission Bodies may also be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

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

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

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

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

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

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

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

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

3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance, which has been made available by the Fund (see 3.8 below).

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

The Administering Authority therefore has put in place an approach to help manage ill health early retirement costs. The current approach was put in place on April 2020, has been reviewed on December 2019 and will next be due for review as part of the next review of this document.

Each employer may elect to use external insurance which has been made available by the Fund. The Fund last communicated this option to employers on [DATE] and has highlighted it to new employers since this date.

If an employer provides satisfactory evidence to the Administering Authority of putting in place an external insurance policy covering ill health early retirement strains, then:

- the employer's contribution rate to the Fund each year is reduced by the amount of that year's insurance premium rate, and

- there is no need for monitoring of ill health allowances versus experience (as typically required for some employers).

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

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

3.9 Employers with no remaining active members

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

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

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

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

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is followed for all employers. However, this is approach reviewed from time-to-time to ensure each employer's investment strategy is appropriate given their funding objective and current funding position.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

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

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

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

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

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

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

Relative considerations include:

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

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

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

Appendix

Appendix A – Regulatory framework

Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers in [DATE] for comment;

b) Comments were requested within [30] days;

c) There was an Employers Forum on [DATE] at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [CLIENT URL];
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;

- A summary issued to all Fund members;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

1 operate the Fund as per the LGPS Regulations;

2 effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

3 collect employer and employee contributions, and investment income and other amounts due to the Fund;

4 ensure that cash is available to meet benefit payments as and when they fall due;

5 pay from the Fund the relevant benefits and entitlements that are due;

6 invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;

7 communicate appropriately with employers so that they fully understand their obligations to the Fund;

8 take appropriate measures to safeguard the Fund against the consequences of employer default;

9 manage the valuation process in consultation with the Fund's actuary;

10 provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

11 prepare and maintain a FSS and a ISS, after consultation;

12 notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

13 monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1 deduct contributions from employees' pay correctly;

2 pay all contributions, including their own as determined by the actuary, promptly by the due date;

3 have a policy and exercise discretions within the regulatory framework;

4 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

5 notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1 prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2 provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3 provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4 prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5 assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6 advise on the termination of employers' participation in the Fund; and

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

B4 Other parties:-

1 investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2 investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3 auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4 governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5 legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

6 MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

Types of risk

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

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

C2 Financial risks

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

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

C3 Demographic risks

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

Risk	Summary of Control Mechanisms
	to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

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

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.

Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

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

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

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

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

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

D2 How is the Primary contribution rate calculated?

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

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

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

1 meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)

2 at the end of the determined time horizon (see 3.3 Note (c) for further details)

3 with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

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

D4 What affects a given employer's valuation results?

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

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

D5 How is each employer's asset share calculated?

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

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

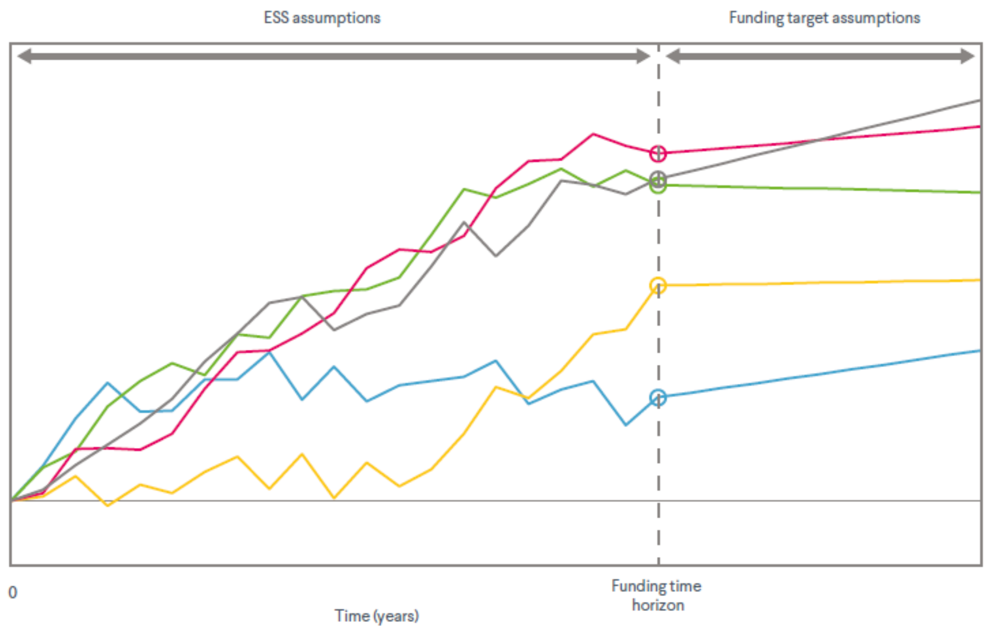
These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions).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

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

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

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

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



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

E2 What assumptions are used in the ESS?

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

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

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

E3 What assumptions are used in the funding target?

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

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

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

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

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis

Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Typically applied to Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

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

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set equal to Consumer Prices Index (CPI).

b) Pension increases

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

(Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

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

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

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

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

d) General

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

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

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually

	be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.

Valuation	**Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

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Division(s): N/A

LOCAL PENSION BOARD – 25 OCTOBER 2019

EMPLOYER TRAINING

Report by the Director of Finance

RECOMMENDATION

The Board is RECOMMENDED to note the current position on employer training and to offer any insights and comments to support the development of any future changes in approach, including those issues covered in paragraph 9 above.

Introduction

1. At their last meeting, the Board asked for an update on scheme employer training. This report sets out the Fund's approach to employer training and information on recent training activities. The Board is invited to offer any comments.

Approach to Training

2. The Fund's communication policy states its aim is "to enable the Scheme Manager / Administering Authority to discharge their respective responsibilities in accordance with the Local Government Pension Scheme Regulations 2013 (as amended); The Occupational and Personal Pension Schemes (Disclosure of Information Regulations 2013 (as amended) and The Pension Regulator Guidance. "

3. To meet this objective the Fund currently:

- Sends monthly newsletters to scheme employers
- Provides online help / toolkits on our website
- Holds quarterly meetings to discuss any issues
- Holds quarterly training sessions for scheme employer staff new to dealing with pensions
- An annual Pension Fund Forum to give an overview of Fund performance
- Offers i-Connect training
- Offers Final Pay training
- Offers End of Year training
- Offers ad-hoc training / seminars as requested

Recent Training Activities

4. The Pension Fund finds that there is a core of engaged scheme employers who make the effort to attend all meetings and will give ideas of what the agenda should cover. Sadly, this is a small group and the majority of scheme employers only engage when absolutely necessary.

5. Over the past 12 months there have been two user groups dedicated to a specific subject – Early Retirement and Employer Discretions, both attended by 8% of scheme employers. The other meetings have covered various subjects – administration strategy; The Pension Regulator update; i-connect; end of year; work of the pension board; amendment regulations; proposed changes to the cost cap; fair deal consultation and an introduction to the 2019 valuation. These were attended by between 3% and 6% of scheme employers.

6. This level of engagement was also evidenced by our recent survey about how the end of year process worked from the scheme employer perspective:

    - 18 replies were received (out of 195 active scheme employers).
    - 13 respondents were aware of the information on our website – there were two comments: rarely used (time) and It is sometimes difficult to find what I am looking for.
    - 14 replies confirmed that they were aware of the end of year training on offer (note: no training requests were received).

7. We must also acknowledge that the employer faces multiple challenges - they are more fragmented, turnover and retention is harder to manage, so pensions expertise becomes more diluted. Pension responsibilities are shared between several people and very few, if any, employers have a dedicated pensions resource or subject matter expert.

8. We believe the best way to support these challenges is to continue to offer the range of short and focussed courses listed above.

9. Other possible solutions:

    - Consider a change in emphasis to our communications, by emphasising the statutory nature of the scheme and the responsibilities placed on scheme employers by regulation and by their agreement to the requirements of the administration strategy.
    - Our software suppliers, Heywood, are intending to offer online training modules for scheme employers within the next 12 months.
    - Employer Training is an ongoing discussion point at the National and local Communications Working Groups and we will continue to monitor and contribute to new ideas in this forum, adopting initiatives where we can.
    - The suggested move to making pension training mandatory for employers is likely to create more work for the Fund, as we try to document and enforce such a requirement and impose penalties on those who do not comply, whilst monitoring employer staff turnover and job changes.

LORNA BAXTER
Director of Finance

Contact Officer: Sally Fox
Tel: 01865 323854

October 2019

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