

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 11 March 2020 - 7:00 pm
Committee Room 2, Town Hall, Barking

Members: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Sade Bright, Cllr Kashif Haroon, Cllr Amardeep Singh Jamu, Cllr Foyzur Rahman and Cllr Tony Ramsay

Independent Advisor: John Raisin

Observers: Dean Curtis, Steve Davies and Susan Parkin

Date of publication: 3 March 2020

Chris Naylor
Chief Executive

Contact Officer: Claudia Wakefield
Tel: 020 8227 5276
E-mail: claudia.wakefield@lbbd.gov.uk

AGENDA

1. **Apologies for Absence**
2. **Declaration of Members' Interests**

In accordance with the Council's Constitution, Members are asked to declare any interest they may have in any matter which is to be considered at this meeting.
3. **Minutes- To confirm as correct the minutes of the meeting held on 18 September 2019 (Pages 3 - 6)**
4. **Quarterly Monitoring Report (Pages 7 - 36)**
5. **Administration and Governance Report (Pages 37 - 57)**
6. **Triennial Valuation Results (Pages 59 - 62)**
7. **Funding Strategy Statement (Pages 63 - 117)**
8. **Business Plan Update (Pages 119 - 122)**

- 9. Annual Allowance Scheme Pays (Pages 123 - 128)**
- 10. Any other public items which the Chair decides are urgent**
- 11. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

Private Business

The public and press have a legal right to attend Council meetings except where business is confidential or certain other sensitive information is to be discussed. The item below contains commercially confidential information which is exempt under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- 12. Independent Advisor (Pages 129 - 135)**
- 13. Any other confidential or exempt items which the Chair decides are urgent**



Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

A New Kind of Council

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

Empowering People

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

Inclusive Growth

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

Citizenship and Participation

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

This page is intentionally left blank

MINUTES OF PENSIONS COMMITTEE

Wednesday, 18 September 2019
(7:00 - 8:27 pm)

Members Present: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Sade Bright, Cllr Kashif Haroon, Cllr Amardeep Singh Jamu and Cllr Tony Ramsay

Observers Present: Susan Parkin

Advisors Present: John Raisin, Colin Cartwright and Joe Peach

9. Declaration of Members' Interests

There were no declarations of interest.

10. Minutes - To confirm as correct the minutes of the meeting held on 12 June 2019

The minutes of the meeting held on 12 June were confirmed as correct.

11. Pension Fund Quarterly Monitoring 2019/20 - April to June 2019

The report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 - April to June 2019 as well as a verbal update on the unaudited performance of the Fund in quarter 2 – July to 17 September.

The report summarised the effects during the periods of the global market including Brexit and a No Deal outcome and detailed the overall performance of the pension funds both collectively and of individual fund managers.

The Investment Fund Manager reported that despite the volatility of the markets in this quarter the Fund had performed well with Baillie Gifford and Newton, fund managers continuing to perform the best. However there remained concerns about the underperformance of Mellon Corporation (Standish), as a result of which it is proposed to withdraw funds (see Minute 16).

The Committee noted:

- (i) The progress on the strategy development within the Pension Fund;
- (ii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1; and
- (iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually.

12. Pension Fund Annual Report 2018/19

The Pension Fund Accountant presented the Committee with the Annual Report for the year ended 31 March 2019 which included the 2018/19 Audited Pension Fund Accounts. The auditors are currently reviewing the accounting of a pre-payment but this matter has now been resolved and the accounts are at the point of being signed off and consequently a final update report will be presented to the Committee in December.

The Annual Report was available on the Council's website at:

<http://www.lbbdpensionfund.org/about-us/forms-and-publications.aspx>

13. Administration and Governance Report

The Pension Fund Accountant updated the Committee on the latest administrative and governance issues relating to the Pension Fund, which covered the following areas:

- a) Pension Fund Budget 1 April 2019 to 31 March 2022;
- b) Cash flow to 31 March 2019;
- c) Update on the custodian tender and specially the appointment of Northern Trust, and
- d) Update on the Scheme Advisory Board (SAB) Good Governance Project in the LGPS by the Independent Advisor

In respect to the latter the Independent Advisor supplemented his report in section 5 updating the Committee on the outcome of a further meeting today of the SAB which has confirmed that rather than imposing a particular "one size fits all" model, the governance structure of the LGPS will remain as now on the basis that the future governance of the Scheme should be enhanced utilising an "outcomes based" approach with minimum standards which is assured through regular independent review, and which all authorities will be expected to adopt in 2020/21.

The Committee **resolved** to note:

- (i) That the Pension Fund is cash flow positive;
- (ii) The Fund's three-year budget for the period 1 April 2019 to 31 March 2022;
- (iii) The appointment of Northern Trust as the Fund's Custody and Performance Monitoring Provider, and
- (iv) The Independent Advisor's LGPS Update.

14. Business Plan Update 2019/20

The purpose of this report was to update the Pension Committee on progress regarding the Pension Fund's 2019/20 Business Plan.

Appendix 1 provided a summary of the Business Plan actions from 1 January 2019 to 31 August 2019 and those for the remainder of the year.

The Committee noted the report and Business Plan.

15. Private Business

The Committee **agreed** to exclude the public and press for the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

16. CQS Multi-Asset Credit Strategy Appointment

Following consistent underperformance by BNY Mellon (Standish) the Investment Fund Manager presented a report from the Council's Chief Operating Officer detailing the outcome of interviews conducted by the Pensions Committee on 13 June in the presence of representatives of the London Collective Investment Vehicle (LCIV) with three fixed income fund managers as part of the fixed income strategy review. This resulted in the decision to appoint CQS as the Fund's fixed income manager, subject to due diligence checks.

In the light of the said checks, officers had subsequent discussions with LCIV, who advised that the fund manager has been placed "on watch" which in turn placed a hold on the transition process from BNY Mellon.

The Fund's Investment Advisors, Aon along with the Fund's independent advisor were asked to provide comments, the former of which were contained in Appendix 2 to the report, and the latter verbally outlined at the meeting.

The independent advisor provided a personal opinion of CQC whom he felt had demonstrated their suitability for appointment through their investment record over the past four years. He stated that the Committee should view his comments as merely observational and represented constructive challenge, on the basis that under the LGPS Investment Regulations 2016 investment advice is provided to the Barking & Dagenham Pension Fund by Aon Hewitt.

Aon then summarised their findings. Strategically they believed that the type of mandate that CQS operated was correct for what the B&D Pension Fund required. That said given the role of the LCIV within the LGPS pooling environment in selecting the appropriate fund managers for each mandate, it was felt appropriate that representatives of the LCIV be invited to attend the meeting to discuss these matters.

Representatives of LCIV attended the meeting and were questioned as to the concerns that they had with CQS and the reasons why subsequent to the interviews they had been placed 'on watch'. There was also a discussion about the set up under the LCIV and the concerns over the limited number of manager

options available for each type of asset.

In the light of the discussions and having regard to view of the Advisers,

The Committee **RESOLVED** to: Appoint CQS as the Fund's Credit Manager and to transfer funds from BNY Mellon in two tranches during October and November 2019 in the manner detailed in Section 4 of the report.

PENSIONS COMMITTEE**11 March 2020**

Title: Pension Fund Quarterly Monitoring 2019/20 – October to December 2019	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary	
<p>This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2019.</p> <p>The report updates the Committee on the Fund's investment strategy and its investment performance.</p>	
Recommendation(s)	
<p>The Pension Committee is recommended to note:</p> <ul style="list-style-type: none"> (i) the progress on the strategy development within the Pension Fund (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1 (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually; and (iv) that the transition to CQS has been put on hold until clarification is obtained from LCIV. 	

1. Introduction and Background

- 1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2019 (“Q4”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 January to 10 March 2020 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q4 2019

- 2.1 The period October to December 2019 was positive for world equity market as a whole. Not only did the MSCI World Index gain over 8% (in \$ terms) but both the major developed and other MSCI markets experienced a clearly positive quarter. A crucial factor was renewed optimism regarding US-China trade relations progressively developing over the Quarter. The US S&P 500 index gained 9%, while the MSCI EMU Index (which tracks the largest companies in the Eurozone) was up 5% (in Euro terms), the FTSE All Share gained 4% (in £ terms) and the Japanese Nikkei 225 gained approaching 9%. In contrast to the July to September Quarter this Quarter saw significant gains for the MSCI AC Asia (exc Japan) Index and the MSCI Emerging Markets Index which both saw gains (in \$ terms) of over 11%. In contrast, the major Government Bond yields rose (and prices consequently fell).
- 2.2 The S&P 500 advanced from 2,977 at the end of September to close at 3,231 on 31 December 2019. At the end of its 29-30 October 2019 meeting the Federal Open Markets Committee (FOMC) again lowered the federal funds rate (its main interest rate) by 0.25% to 1.5 to 1.75%. At the press conference following the October meeting Chair Jay Powell stated “Today we decided to lower the interest rate for the third time this year, weakness in global growth and trade developments have weighed on the economy and pose ongoing risks. These factors, in conjunction with muted inflation pressures, have led us to lower our assessment of the appropriate level of the federal funds rate. In both July and September, we reduced the target rate for the federal funds rate by ¼%, and we did so again today...” Chair Powell however then went on to indicate that this would likely be the last rate change in this cycle although he did state (as he had at the September press conference) that “Policy is not on a preset course.” At the meeting of the FOMC which concluded on 11 December 2019 the committee unanimously voted to retain the federal funds rate at its existing level.
- 2.3 Trade tensions between the US and China clearly eased during the Quarter. On 11 October President Trump announced a preliminary Phase 1 deal including suspension of threatened tariffs. On 12-13 December both sides announced significant progress on Phase 1 including that new tariffs set to start on 15 December would be indefinitely postponed. The US consumer appeared confident but business less so. Chair Jay Powell at his December Press Conference summarised the US economy as follows – “Household spending has been strong, supported by a healthy job market, rising incomes, and solid consumer confidence. In contrast, business investment and exports remain weak, and manufacturing

output has declined over the past year. As has been the case for some time, sluggish growth abroad and trade developments have been weighing on those sectors. Even so, the overall economy has been growing moderately.”

- 2.4 Inflation continued its long trend of running clearly below the Federal Reserve’s 2% target. US inflation as measured by the Personal Consumption Expenditures (PCE) Index (the US Federal Reserve’s preferred inflation measure) was 1.4% in both October and November, and 1.6% in December. Core PCE which excludes food and energy was 1.6% in October, 1.5% in November and 1.6% in December. US unemployment which had reached another fifty year low in September 2019 of 3.5% remained at the same level at December 2019. The University of Michigan Surveys of Consumers indicated very positive consumer confidence with a clear increase since September and levels above those at the end of June 2019.
- 2.5 Eurozone equities had a positive Quarter with the MSCI EMU index advancing 5%. This was doubtlessly aided by the positive developments in US-China trade relations as well as greater clarity over the exit of the UK from the EU, together with the implementation of further monetary policy loosening (quantitative easing) and better than expected economic growth reported for the third Quarter of 2019 (July to September).
- 2.6 The meeting of the Governing Council of the European Central Bank (ECB) on 12 September had, in view of continuing low inflation and to support expansion of the Euro area economy, taken a number of decisions to loosen monetary policy including reducing the deposit interest rate by 0.1% to minus 0.5% and the reintroduction of quantitative easing with effect from 1 November 2019. The two Governing Council meetings held during this Quarter (24 October and 12 December) reaffirmed the policy decisions of 12 September and quantitative easing was restarted on 1 November at the rate of asset purchases of 20 billion Euros per month.
- 2.7 Eurozone unemployment which had fallen to 7.5% in June 2019 (its lowest level since July 2008) fell further to 7.4% in December. Other economic indicators appear less positive, however. While the headline inflation rate increased from 0.8% in September to 1.3% in December it remains well below the ECB policy objective of below, but close to, 2% over the medium term.
- 2.9 The FTSE All Share advanced by 4% over the Quarter. While the internationally focussed FTSE 100 was up by approximately 3% the more domestically focussed FTSE 250 advanced by over 10%. Share prices – particularly the FTSE 250 – progressively advanced at the same time that events in British politics resulted in reduced uncertainty about the future relationship between Britain and the EU with the passing of the EU Withdrawal Bill in October and the victory of the Conservative party at the December 2019 General Election. The FTSE 250 advanced by 6% in two (working) days following the General Election. The actual future relationship between the UK and EU is, however, far from settled and 2020 may well see “cliff edge” negotiations and deadlines.
- 2.10 Unemployment, according to the Office for National Statistics (ONS), fell to 3.8% for the period October to December 2019 its lowest level since 1974. The ONS also reported that “For the first time since March 2008, real regular average weekly earnings exceeded the highest level reached before the economic downturn (2008

to 2009).” Other economic news was not so positive. The ONS reported that Gross Domestic Product was flat during the October to December Quarter with increases in services and construction offset by poor performance from manufacturing. Consumer Price Inflation (CPI) fell from its September level of 1.7% to 1.5% in October and November, and 1.3% in December compared with the Bank of England (BoE) target of 2%.

- 2.11 The November and December Monetary Policy Committee (MPC) meetings of the Bank of England voted to maintain Bank Rate at 0.75%. At both meetings, however, two external members voted for a reduction to 0.5% citing concerns over the economy and (low) inflation.
- 2.12 It was a clearly positive Quarter for Japanese equities with the Nikkei 225 advancing by 9%. As not only a major world trading economy, but an economy with close trading links with both the US and China, Japan benefitted from the thaw in US-China relations with a clear upward trend in the Nikkei 225 apparent after the announcement of the preliminary Phase 1 arrangement between the US and China in October 2019.
- 2.13 At both its 31 October and 19 December 2019 meetings the Bank of Japan again continued its policy of huge monetary policy stimulus. This included maintaining interest rates at minus 0.1%, together with a target of “around zero percent” for 10 year bond yields and major ongoing asset purchase operations. Despite huge monetary stimulus since 2013 Japanese Core CPI inflation has remained well below the 2% target. It did however reach 0.7% in December 2019 up from a 2019 low of 0.3% in September. December 2019 also saw the Japanese Government announce a fiscal stimulus to repair typhoon damage, improve infrastructure and invest in new technology.
- 2.14 Asia (excluding Japan) and emerging market equity markets enjoyed a positive Quarter. The MSCI AC Asia (exc Japan) Index and the MSCI Emerging Markets Index both saw gains (in \$ terms) of over 11%. The positive progress in US-China trade talks was clearly a major positive and a weaker US\$ another.
- 2.15 Chinese growth (as reported by the China National Bureau of Statistics) was an annualised 6% in the October to December Quarter the same rate as for the July to September 2019 Quarter. Chinese growth in 2019 was the lowest since 1990. In November China’s central bank slightly reduced benchmark lending rates. This was seen as a reaction to slowing economic growth.
- 2.16 The easing of trade tensions which was a major feature of the Quarter resulted in a greater appetite for risk as demonstrated by the clear advances in equity valuations. In contrast major Government bonds suffered as equities and high yield bonds were favoured by investors. The US 10-year Treasury Bond fell in value as its yield increased from 1.66 at the end of September to 1.92 at the end of December. The 10-year Gilt yield – also influenced by less uncertainty around Brexit and the Conservative Election victory – rose from 0.49 to 0.82. The German 10-year Bund yield rose from -0.57 to -0.19.
- 2.17 In Conclusion the October to December 2019 Quarter was heavily influenced by the clearly positive turn in US-China relations. Again, continued loose monetary policy provided both economic support and support to markets. Equity valuations are

however high and the additional tools available to the major central banks to support the economy and markets in a downturn are somewhat limited. Fiscal policy which could provide further economic support has not, however, yet been widely applied.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q4 valued at £1,126.32m, an increase of £15.96m from its value of £1,110.36m at 30 September 2019. The cash value held by the Council at 31 December 2019 was £3.43m, giving a total Fund value of £1,129.75m. The gross value of £1,129.75m includes a prepayment of £25.0m from the Council. The net asset value as at 31 December 2019, after adjusting for the prepayment was therefore £1,104.75m.

3.2 For Q4 the Fund returned 2.2%, net of fees, outperforming its benchmark by 0.5%. Over one year the Fund returned 12.7%, underperforming its benchmark by 0.5%. Over three years the Fund underperformed its benchmark by 0.8%, with a return of 7.2%. The Fund's returns are below:

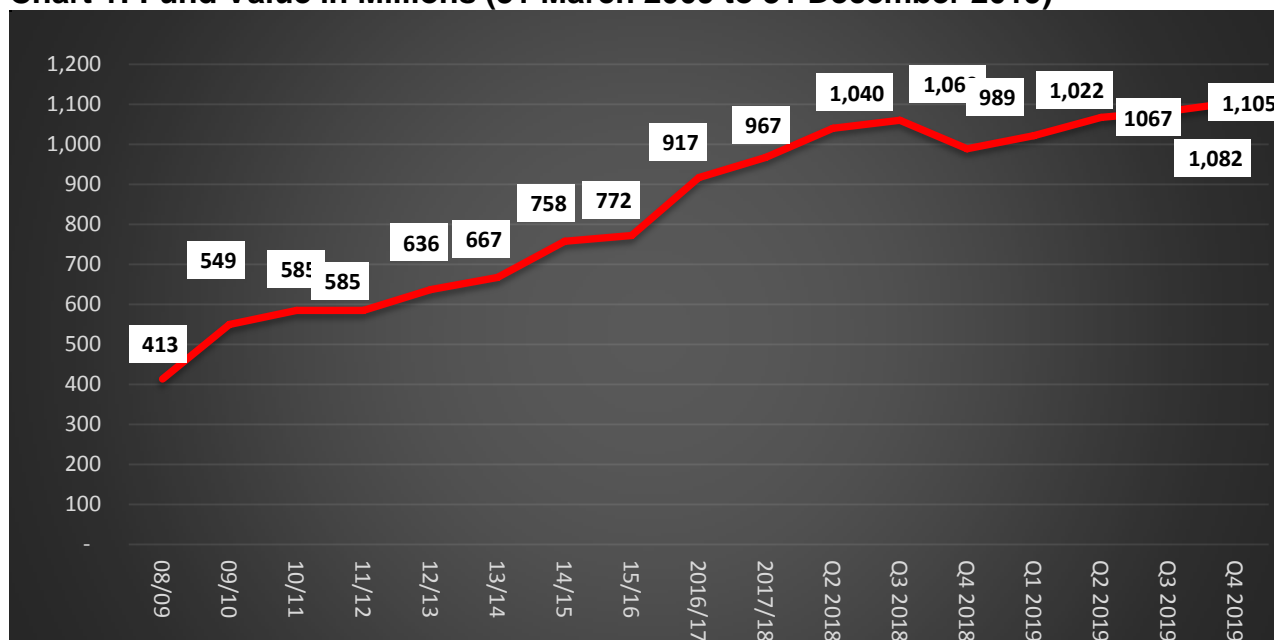
Table 1: Fund's 2019, 2018, 2017 Quarterly and Yearly Returns

Year	2019				2018				One Year	Two Years	Three Years	Five Years
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1				
Actual Return	2.2	1.4	3.3	5.8	(6.3)	2.3	3.8	(1.9)	12.7	5.3	7.2	8.4
Benchmark	1.7	2.4	3.5	5.6	(4.6)	3.3	3.7	(1.3)	13.2	7.1	8.0	9.0
Difference	0.5	(1.0)	(0.2)	0.2	(1.7)	(1.0)	0.1	(0.6)	(0.5)	(1.8)	(0.8)	(0.6)

■	RED- Fund underperformed by more than 3% against the benchmark
△	AMBER- Fund underperformed by less than 3% against the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 December 2019. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2009.

Chart 1: Fund Value in Millions (31 March 2009 to 31 December 2019)



- 3.4 Stock selection contributed -0.2%, with asset allocation contributing 0.6% for the quarter. The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.
- 3.5 Table 2 highlights the Q4 2019 returns. The return for Hermes GPE was negative 0.2% which was 1.7% below the benchmark of 1.4%. UBS Bonds, the funds passive strategy also provided a negative return of 3.9% against a benchmark of negative 3.9%. Baillie Gifford provided a good return of 4.9% which was 3.4% above the benchmark of 1.5%. UBS Equities a passive fund provided a return of 5.7% against a 5.7% benchmark. Most other manager provided small, but positive returns.

Table 2 – Fund Manager Q4 2019 Performance

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	(0.2)	1.2	(1.4)	△
Baillie Gifford	4.9	1.5	3.4	○
BlackRock	0.6	0.3	0.3	○
Hermes GPE	(0.2)	1.4	(1.7)	△
Kempen	1.2	1.0	0.2	○
Prudential / M&G	0.0	1.2	(1.2)	△
Newton	1.6	1.2	0.4	○
Pyrford	0.7	1.5	(0.8)	△
Schroders	1.0	0.3	0.7	○
Mellon Corporation (Standish)	0.0	1.2	(1.2)	△
UBS Bonds	(3.9)	(3.9)	0.0	○
UBS Equities	5.7	5.7	0.0	○

- 3.6 Hermes GPE has provided a disappointing return of 0.5% over one year which was 5.2% below the benchmark. Baillie Gifford performed very well over the year with returns of 25.6%. Kempen provided a high return of 13.2% but was still below the benchmark by 8.0%. Newton performed well generating a positive return of 11.8%.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.5	4.8	(0.3)	△
Baillie Gifford	25.6	20.8	4.8	○
BlackRock	2.0	1.6	0.4	○
Hermes GPE	0.5	5.7	(5.2)	△
Kempen	13.2	21.2	(8.0)	△
Prudential / M&G	2.7	4.6	(1.9)	△
Newton	11.8	4.5	7.3	○
Pyrford	5.4	7.1	(1.7)	△
Schroders	0.2	1.6	(1.4)	△
Mellon Corporation (Standish)	2.8	4.8	(2.0)	△
UBS Bonds	7.0	7.0	0.0	○
UBS Equities	23.3	23.4	(0.1)	△

3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -1.7% with Mellon Corporation (Standish) to 11.3% with Baillie Gifford. Absolute return and credit continue to struggle, significantly underperforming their benchmarks.

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.8	4.7	0.1	O
Baillie Gifford	11.3	9.3	2.0	O
BlackRock	4.2	4.0	0.2	O
Hermes GPE	3.0	5.7	(2.7)	Δ
Kempen	4.3	9.7	(5.4)	
Prudential / M&G	3.7	4.5	(0.9)	Δ
Newton	6.0	4.5	1.5	O
Pyrford	1.9	7.3	(5.4)	
Schroders	3.0	4.0	(1.0)	Δ
Mellon Corporation (Standish)	(1.7)	4.7	(6.4)	
UBS Bonds	3.9	3.9	0.0	O
UBS Equities	8.6	8.8	(0.2)	O

4. Asset Allocations and Benchmark

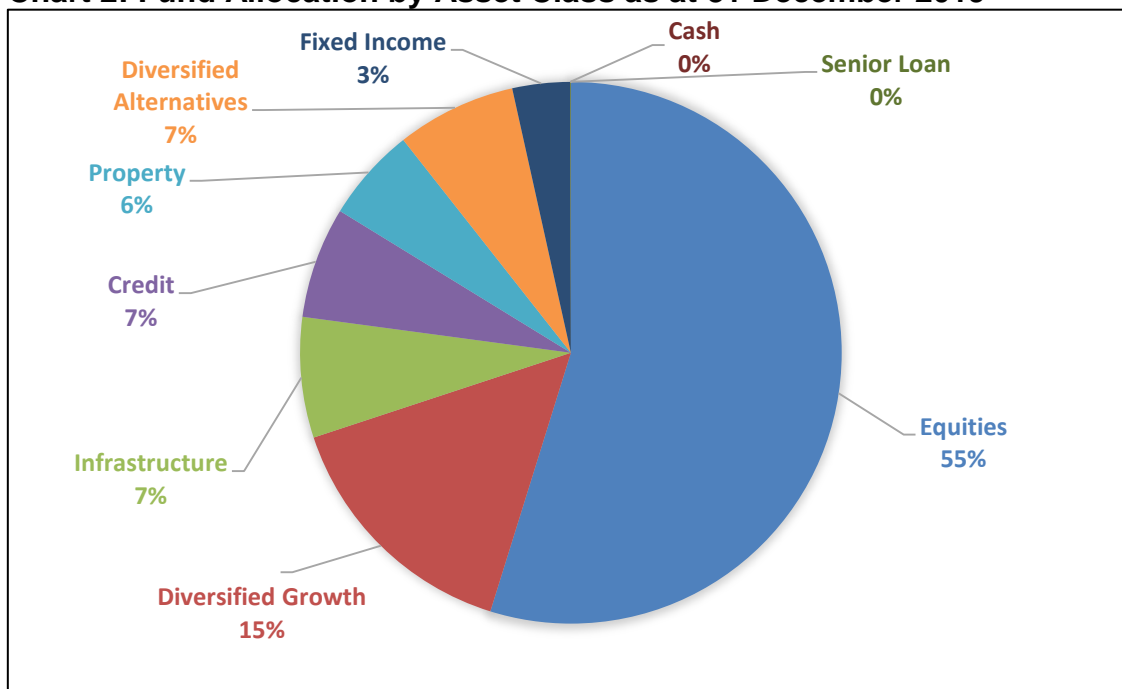
4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks

Table 5: Fund Asset Allocation and Benchmarks as at 31 December 2019

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	7.1	82,817	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.4	230,232	MSCI AC World Index
BlackRock	3.5	39,371	AREF/ IPD All Balanced
Hermes GPE	7.2	80,784	Target yield 5.9% per annum
Kempen	15.9	179,208	MSCI World NDR Index
Prudential / M&G	0.0	497	3 Mth LIBOR + 4% per annum
Newton	6.6	74,616	One-month LIBOR +4% per annum
Pyrford	9.4	105,959	UK RPI +5% per annum
Schroders	2.1	23,773	AREF/ IPD All Balanced
Mellon Corporation	5.7	63,969	3 Mth LIBOR + 4% per annum
UBS Bonds	3.4	38,595	FTSE UK Gilts All Stocks
UBS Equities	18.3	206,353	FTSE AW Developed Tracker (part hedged)
LCIV	0.0	150	None
Cash	0.3	3,427	One-month LIBOR
Total Fund	100.0	1,129,752	

4.2 The percentage split by asset class is graphically shown in the pie chart below.

Chart 2: Fund Allocation by Asset Class as at 31 December 2019



4.3 Overall the strategy is overweight equities and cash, with equities at the top end of the range. Most other asset classes are underweight, with infrastructure 1.8% underweight but this is due to the fact that it is still purchasing assets. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	54.5%	48%	6.5%	45-53
Diversified Growth	15.0%	16%	-1.0%	16-20
Infrastructure	7.2%	9%	-1.8%	4-11
Credit	6.6%	8%	-1.4%	6-10
Property	5.6%	7%	-1.4%	6-9
Diversified Alternatives	7.3%	8%	-0.7%	6-10
Fixed Income	3.4%	4%	-0.6%	3-5
Cash	0.3%	0%	0.3%	0-1
Senior Loan	0.0%	0%	0.0%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2019				2018				One Year	Two Years	Since Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£179.21m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.2	1.3	5.2	5.5	(7.3)	2.9	7.2	(7.4)	13.2	4.3	9.5
Benchmark	1.0	3.8	6.5	9.9	(11.3)	6.3	8.0	(4.7)	21.2	9.7	12.8
Difference	0.2	(2.5)	(1.3)	(4.4)	4.0	(3.4)	(0.8)	(2.7)	(8.0)	(5.4)	(3.3)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy outperformed its benchmark by 0.2% for the quarter but has underperformed its one-year benchmark by 8.0%. Kempen has underperformed its two-year benchmark by 5.4%, providing an annual return of 4.3%. It has also underperformed its benchmark since inception by 3.3%, although the return over this period is a good annualised return of 9.5%.

Portfolio Rebalancing

Kempen sold four names during Q4: Roche, TSMC, Nokia and Limited Brands.

Roche and TSMC were sold after the share prices fell below the 3% dividend threshold after the share prices jumped in 2019. Limited Brands was sold after its Victoria Secret brand continued to perform poorly with again negative like-for-like sales. Nokia was sold due to significant dividend cuts.

Six new stocks were added: Wartsila, Simon Property Group, Public Storage, Simplo Technology, Amada Holdings and MSC Industrial.

Finnish industrial Wartsila has strong market positions in power generation and marine markets, while the valuation is quite attractive. Simon Property (shopping malls) and Public Storage (self-storage facilities) are real estate investments trusts with an attractive valuation. Taiwanese Simplo Technology is a tier 1 battery pack vendor capable of hardware design and software integration. Its most important competitive advantages are product development capabilities and experience. Japanese Amada is a metalworking machine manufacturer with a very strong balance sheet and an attractive valuation.

5.2 Baillie Gifford

Baillie Gifford	2019				2018				One Year	Two Years	Since Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£230.23m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	4.9	0.7	7.7	12.4	(12.5)	3.0	7.3	(0.9)	25.6	11.3	15.2
Benchmark	1.5	3.4	6.2	9.8	(10.6)	5.7	6.9	(4.3)	20.8	9.3	12.6
Difference	3.4	(2.7)	1.5	2.6	(1.9)	(2.7)	0.4	3.4	4.8	2.0	2.6

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.

Performance Review

For Q4 BG returned 4.9%, outperforming its benchmark by 3.4%. BG's one-year return was 25.6%, outperforming its benchmark by 4.8%. Since initial funding, the strategy has returned 15.2% p.a., outperforming its benchmark by 2.6%.

Q4 2019 was a period where market sentiment shifted to more of a positive stance. Signing of the phase 1 US-China trade deal, the Conservative win in the UK and improved corporate earnings results pushed global indices to ever record highs. The regions to most benefit were emerging markets, UK and the rest of the world broadly expanding. IT stocks in the US rallied as investors saw value in the US economy being in the 'goldilocks' zone.

Whilst the manager does not focus on top down analysis for portfolio construction it is important to understand how this impacts the portfolio. The manager focuses on themes that are able to disrupt traditional sectors and facilitate strong growth. One such theme was data usage in healthcare which placed focus on biotechnology stocks. With such a strong growth in the sector, the manager has trimmed its position in healthcare from 15% down to 13.9% by the end of December.

The manager feels the portfolio is well saturated in this space so they have shifted their focus in other areas which includes enterprise IT for the year ahead. These are businesses that have software for business rather than for people. Alibaba is thought of as an enterprise IT stock as the company has 700 million customers on its cloud. Amazon has cloud solutions for smaller businesses and Microsoft for much larger institutions. The manager is also interested in penetration for digital advertising so it increased holdings in Alphabet.

The manager sold out of Persol Holdings in the period which was the second largest staffing company in Japan- behind Recruit. The company is moving into overseas markets where 30% of revenues are sourced from. The manager is not

convinced the company is able to compete against other global recruitment firms and following a number of M&A missteps, they decided to sell.

5.3 UBS Equities

UBS Equities	2019				2018				One Year	Two Years	Since Start 31/08/12
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£206.35m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.7	2.1	4.0	11.5	(12.8)	5.3	4.4	(3.0)	23.3	8.6	14.2
Benchmark	5.7	2.1	4.1	11.5	(12.9)	5.7	4.4	(3.0)	23.4	8.8	14.3
Difference	0.0	0.0	(0.1)	0.0	0.1	(0.4)	0.0	0.0	(0.1)	(0.2)	(0.1)

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned 5.7% for Q4 and 23.3% over one year. Since funding in August 2012, the strategy has provided an annualised return of 14.2%.

Equities

Equity markets enjoyed a strong quarter, finishing a bumper year for many markets on an upbeat note. December was the tenth calendar month of positive returns during 2019, as measured by the MSCI World in local currency. Overall, the index was up over a 25% during the year with most major markets advancing strongly.

Markets seen as most exposed to an improvement in the global growth outlook were amongst those to fare best over the quarter. In contrast to the pattern for much of 2019, emerging markets outperformed their developed counterparts.

Bourses in countries such as Brazil and China were amongst the strongest performers. India, however, lagged, as growth in what was until recently the world's fastest growing large economy continued to slow and credit rating agency Moody's lowered its outlook. In Saudi Arabia, the world's largest oil producer, Aramco, made its stock market debut in December. However, its share offering was primarily focused on domestic and local Gulf investors after overseas investors gave a lukewarm reception to plans for a larger listing.

US equities finished the year on a strong note, with new record highs for the S&P 500 and Nasdaq during December. The latter was up over a third during the year, reflecting the continued positive sentiment towards the technology sector. While corporate profits posted for Q3 were broadly flat, this was ahead of expectations going into the reporting season and hence were positively received overall.

UK equity markets enjoyed a strong December in particular as the Conservative party, seen as more pro-business, triumphed over Labour in the general election. Key Eurozone markets such as France and Germany also fared well and outperformed many other major markets during the year. Commodity markets also

saw advances to round off 2019. More economically exposed markets such as copper and oil did best, but even gold, often seen as a hedge in times of uncertainty rose in value despite the more positive mood.

5.4 UBS Bonds

UBS Bonds	2019				2018				One Year	Two Years	Since Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£38.59m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(3.9)	6.2	1.4	3.4	1.9	(1.7)	0.2	0.3	7.0	3.9	5.0
Benchmark	(3.9)	6.2	1.3	3.4	1.9	(1.7)	0.2	0.3	7.0	3.9	4.9
Difference	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The return for Q4 was negative 3.9%, with a one-year return of 7.0% and a two-year return of 3.9%.

Returns to bond investors also continued to follow the pattern seen towards the end of Q3. Yields on government bonds rose further from the historic lows seen over the summer, although these still hovered around or below zero in many large markets. The brighter economic mood also saw an end to the inversion of the US yield curve, which had been widely discussed as a portent of possible economic distress in the third quarter, with 10-year bonds again yielding more than their 2-year counterparts.

The positive attitude towards risk saw credit spreads contract in general, with lower credit quality bonds often seeing strong demand. Investment grade corporate bonds fared less well than areas such as high yield in this environment. Emerging market debt in both hard and local currency shrugged off outbreaks of unrest in a few major economies to deliver a positive return over the quarter.

5.5 M&G / Prudential UK

M&G / Prudential	2019				2018				One Year	Two Years	Since Start 31/5/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£0.50m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	1.7	0.0	1.0	1.2	1.2	1.1	1.1	2.7	3.7	4.5
Benchmark	1.2	1.2	1.0	1.2	1.2	1.1	1.1	1.1	4.6	4.5	2.9
Difference	(1.2)	0.5	(1.0)	(0.2)	0.0	0.1	0.0	0.0	(1.9)	(0.9)	1.6

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees).

Performance and Loan Security

The strategy provided a return of 4.5% per year, with an outperformance against the benchmark of 2.9% since inception. The strategies holding has reduced in size to £498k, with most of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

5.6 Schrodgers Indirect Real Estate (SIRE)

Schrodgers	2019				2018				One Year	Two Years	Since Start 6/8/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£23.77m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.0	0.3	0.1	(1.1)	0.3	1.4	2.3	1.7	0.2	3.0	6.2
Benchmark	0.3	0.4	0.6	0.3	0.9	1.6	1.9	1.9	1.6	4.0	7.4
Difference	0.7	(0.1)	(0.5)	(1.4)	(0.6)	(0.2)	0.4	(0.2)	(1.4)	(1.0)	(1.2)

Reason for appointment

Schrodgers is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

Q4 2019 Performance and Investment Update

The fund generated a positive return in Q4 of 1.0% with a one-year return of 0.2% and a two-year return of 3.0%. In Q4 2019, the two retail warehouse funds, Hercules Unit Trust and Nuveen Real Estate UK Retail Warehouse Fund, generated total returns of -14.2% and -11.0% respectively. These materially detracted from SIRE's total returns. By contrast, the two specialist industrial funds, and those investing in alternative sectors such as student accommodation and leisure, outperformed SIRE's benchmark.

5.7 BlackRock

BlackRock	2019				2018				One Year	Two Years	Since Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£39.37m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.6	0.7	0.5	0.1	1.0	1.9	2.0	1.5	2.0	4.2	0.8
Benchmark	0.3	0.4	0.6	0.3	0.9	1.6	1.9	1.9	1.6	4.0	4.0
Difference	0.3	0.3	(0.1)	(0.2)	0.1	0.3	0.1	(0.4)	0.4	0.2	(3.2)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q4 2019 Performance and Investment Update

BR returned 0.6% for the quarter against the benchmark of 0.3%, with a return of 2.0% over one year against its benchmark's return of 1.6%.

During Q4, the strategy completed two disposals totalling £41.3 million and did not acquire any new properties. The two sold assets were non-core and were regarded

as having limited further value to be added. The outperformance in Q4 was driven primarily through asset management initiatives and the Fund's allocation to the industrial sector, where rental growth and strong leasing activity drove capital values.

5.8 Hermes

Hermes	2019				2018				One Year	Two Years	Since Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£80.78m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.2)	1.2	1.0	(1.5)	1.1	(2.2)	0.6	6.1	0.5	3.0	8.6
Benchmark	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4	5.7	5.7	5.9
Difference	(1.6)	(0.3)	(0.5)	(2.9)	(0.3)	(3.6)	(0.8)	4.7	(5.2)	(2.7)	2.7

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

Hermes returned negative 0.2% in Q4 underperforming the benchmark by 1.6%. As at 31 December 2019, the strategy reported a one-year positive return of 0.5%, underperforming its benchmark by 5.3%. Since inception the strategy has provided a good annualised return of 8.6%, outperforming its benchmark by 2.7%.

Portfolio review

There was a mixed performance by businesses in the HIF I portfolio over 2019. Cadent, Anglian Water, Fallago Rig, ASG I, ASG II and Energy Assets all performed on or above budget.

Southern Waters performance was negatively impacted by mainly one-off operational costs in Retail and reactive work on the Wastewater network for the 9 months to December 2019. Braes of Doune experienced lower than expected wind resource and power prices, resulting in its quarterly performance also falling below budget. Eurostar's performance was negatively impacted by industrial action by French customs in early 2019 and French trade unions in December 2019.

Southern Water is currently subject to a prosecution from the Environment Agency (EA). The current EA summons relates to the actual and potential environmental impact of the same historical operational issues previously investigated by Ofwat. The outcome of the prosecution is expected to be a significant fine so will have an impact on the fund's performance.

Investments and Divestments

In Q4, HIF I exercised its proprietary, pre-emption right to acquire an additional 3.7% stake in Innisfree PFI Continuation Fund, increasing its stake from 14.3% to 18.0%

HIF I Core entered into an agreement to acquire a 74% interest in Iridium's six Spanish toll roads for approximately £185.5m (Project Everest).

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2019				2018				One Year	Two Years	Since Start 15/9/2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£82.82m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.2)	1.9	2.3	0.6	(0.8)	2.6	2.4	0.9	4.5	4.8	4.2
Benchmark	1.2	1.2	1.2	1.2	1.1	1.1	1.2	1.1	4.8	4.7	4.6
Difference	(1.4)	0.7	1.1	(0.6)	(1.9)	1.5	1.2	(0.2)	(0.3)	0.2	(0.4)

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Standard Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance

Overall the strategy provided a negative return of 0.2% in Q4, underperforming its benchmark by 1.4%. The primary commitment to MML led the way in terms of the positive contributors to performance, followed by Field St. In terms of detractors, OEP was the largest. A number of capital calls for payment of management fees also impacted performance.

Over one year the mandate has underperformed its benchmark, with a return of 4.5% against a benchmark of 4.8%. Since inception in September 2014, the strategy has returned 4.2%, underperforming its benchmark by 0.4%.

The hedge funds selected for the Portfolio are a blend of:

- i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets;
- ii. Global macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies;

- iii. Tail risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments, and
- iv. Reinsurance

Aberdeen have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

5.10 Pyrford

Pyrford	2019				2018				One Year	Two Years	Since Start 28/9/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£105.96m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.7	0.9	1.1	2.7	(2.0)	0.8	2.0	(2.3)	5.4	1.9	3.5
Benchmark	1.5	1.7	2.8	1.1	1.5	2.3	2.4	1.3	7.1	7.3	7.0
Difference	(0.8)	(0.8)	(1.7)	1.6	(3.5)	(1.5)	(0.4)	(3.6)	(1.7)	(5.4)	(3.5)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies.

AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a positive return of 0.7% in Q4 underperforming its benchmark by 0.8%. Over one year the strategy has returned 5.4%, underperforming its benchmark by 1.7%. Pyrford underperformed its benchmark by 3.5% since inception.

Outlook and Strategy

Both equities and currency hedges were positive contributors for the quarter whereas bonds detracted from the performance. Positive returns within equities were mainly driven by the UK which generally benefited from positive post-election sentiment in the last quarter. Over the year holding defensive equities overall attributed to slight relative outperformance in a cautious UK market. However, in other regions, diminishing trade fears and further central banks' support rose investor confidence resulting in non-defensive equities outperforming their income-based counterparts held in the portfolio. For the quarter, overseas equities detracted, in the main due to lack of organic growth and Sterling's strength. The largest detractor was Telenor that suffered from the Joint Venture with Axiata, which is blocked by regulators and weaker top line growth.

In a reversal to the first three quarters of the year, when bond yields dropped and shorter duration bonds were a detractor for the portfolio, Q4 saw bond yields rise

and the managers bias against long duration paid off. Overall, the positive prices continued for the majority of the year but the portfolio did not benefit as its exposure is limited to the very front end of the curve meaning their return profile is more “cash-like”. All hedges (FX shorts) were contributors on the back of Sterling’s strength over the quarter.

5.11 Newton

Newton	2019				2018				One Year	Two Years	Since Start 31/8/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£74.62m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.6	1.7	4.3	4.2	(1.7)	2.1	2.4	(2.6)	11.8	6.0	4.0
Benchmark	1.2	1.2	1.0	1.2	1.2	1.1	1.1	1.1	4.5	4.5	4.5
Difference	0.4	0.5	3.3	3.0	(2.9)	1.0	1.3	(3.7)	7.3	1.5	(0.5)

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a positive return of 1.6% in Q4 and outperformed its benchmark by 0.4%. Over one year the strategy has returned 11.8%, outperforming its benchmark by 7.3%. Newton’s performance since inception is 4.0% and underperforms its benchmark by 0.5%.

Most of the positive performance was driven by the managers allocation of their return seeking part of the portfolio whereas the defensive stabilising core detracted slightly. The equities portion of the return seeking core was the strongest performer, making up over 80% of the contribution to performance. The portfolios exposure is summarised below:

Portfolio Exposures		
	30 September 2019	31 December 2019
Equities	29.50	30.76
UK	7.30	7.42
North America	9.20	9.07
Europe	8.80	9.29
Japan	0.60	0.59
Pacific Basin Ex Japan	1.60	3.20
Emerging Markets	2.00	1.19
Fixed Income	41.30	34.48
Government Bonds	19.10	9.59
Corporate Bonds	10.00	9.88
Index Linked Government	2.50	2.44
Emerging Debt	9.70	12.57
Alternatives	29.20	34.76
Infrastructure Funds	6.60	12.48
Renewable Energy	0.20	0.00
Precious Metals	10.50	6.89
Derivative Instruments	10.90	0.79
Cash and FX Forwards	1.00	14.60
Total	100.00	100.00

5.12 Mellon Corporation (Standish)

Mellon Corporation	2019				2018				One Year	Two Years	Since Start 20/8/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£63.97m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.0)	0.1	0.8	1.9	(2.7)	0.1	(3.9)	0.3	2.8	(1.7)	0.4
Benchmark	1.2	1.2	1.2	1.2	1.2	1.1	1.2	1.1	4.8	4.7	5.2
Difference	(1.2)	(1.1)	(0.4)	0.7	(3.9)	(1.0)	(5.1)	(0.8)	(2.0)	(6.4)	(4.8)

Reason for appointment

Mellon Corporation were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

The Fund returned 0% against a benchmark return of 1.2%. Over one year the strategy has underperformed its benchmark of 4.8% by 2.0%, providing a return of 2.8%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.4%.

Positive Contributors:

Asset allocation was the principal contributor to performance during the quarter. Specifically, allocation in emerging market and high yield credit were additive to performance for the period.

Negative Contributors:

Slightly offsetting positive performance was negatives from FX and yield curve allocations.

Portfolio Composition:

Ex-ante annualized tracking error was largely decreased over the quarter as the fund is pending redemption and has significantly de-risked positioning. The fund started the quarter with an annualized tracking error of roughly 115bps and ended the year with tracking error around 50bps. The 50-bps tracking error at year-end had curve, government and EM spreads together representing just under two thirds of the risk budget.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, at the September 2018 Pension Committee, Members agreed to formally review Mellon Corporation, with alternative managers through the London CIV considered.

Following manager interviews, the committee agreed to replace BNY Mellon as the fund's active credit manager and to appoint CQS through the LCIV. Officers were instructed to manage the due diligence on CQS and to manage the transition from BNY Mellon to CQS.

In July, the LCIV informed officers that they have put CQS 'on watch' so the transition process to CQS was put on hold until the issues were resolved. On 18 September 2019, LCIV presented to the committee members and after a thorough discussion, members agreed to progress with the transition to CQS. The funding amount was £60million. LCIV confirmed that the trading could only take place at month end so there were further issues around the transition date:

- An initial transition date of 31 October was set. However, due to uncertainties around Brexit, the fund was advised that CQS would not be trading.
- The transition date was then delayed to the of November, however, the fund was advised against this due to the Thanksgiving Day.

On 21 November 2019, LCIV raised the possibility that CQS would be removed from the platform or alternatively, another manager is appointed in addition to CQS as they still have concerns. As a result, the transition to CQS was put on hold until this position could be clarified. LCIV will continue to keep CQS on watch and to closely monitor performance. The position will be reviewed again around the end of the financial year. The transition is still on hold until a full Strategic Asset Allocation Review is carried out in April 2020.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 2019.

6. Consultation

- 6.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Philip Gregory, Director of Finance

- 7.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.
- 7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.
- 8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

- 9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- Northern Trust Quarterly Q4 2019 Report; and
- Fund Manager Q4 2019 Reports.

List of appendices:

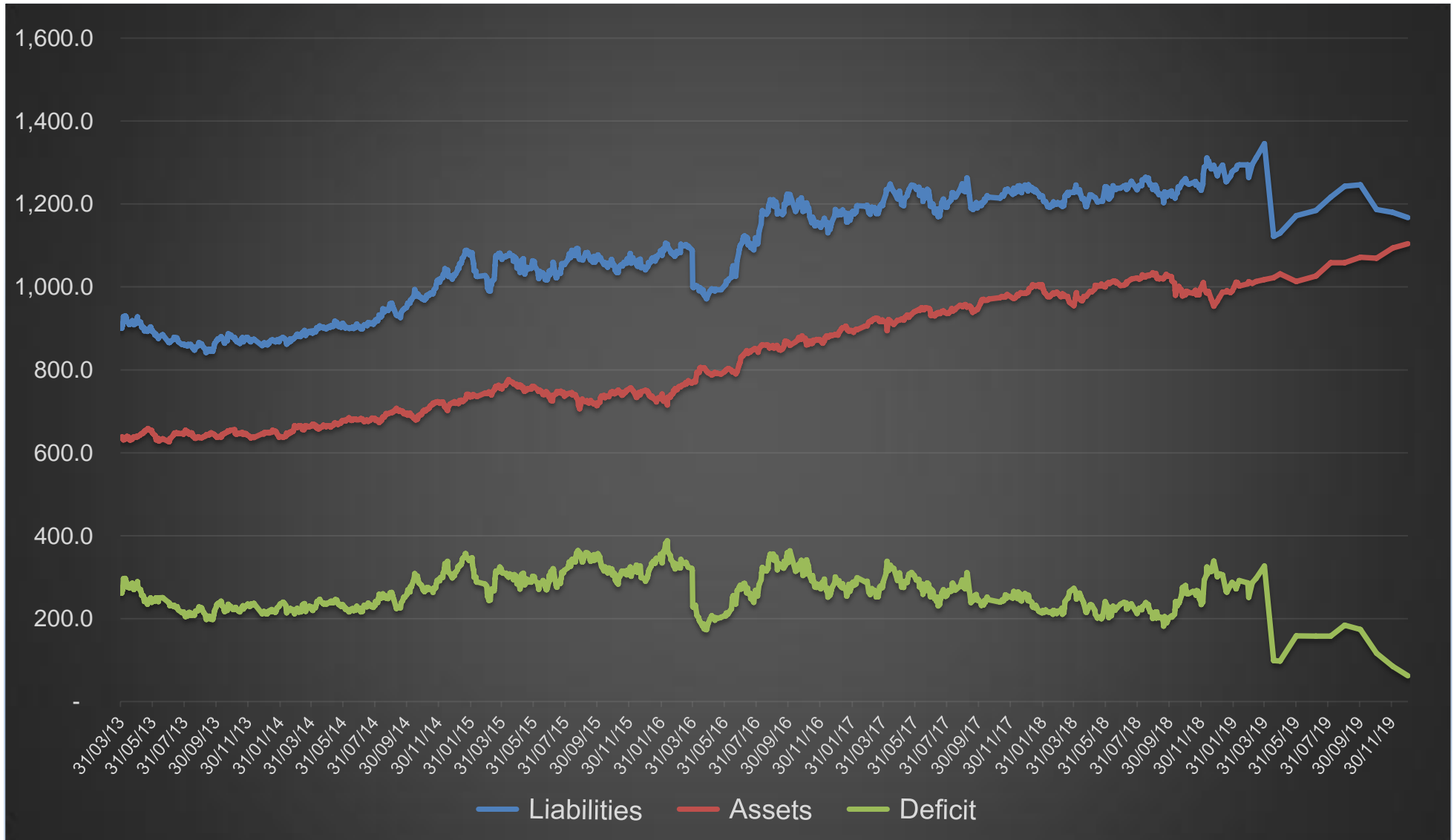
Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 December 2019

Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

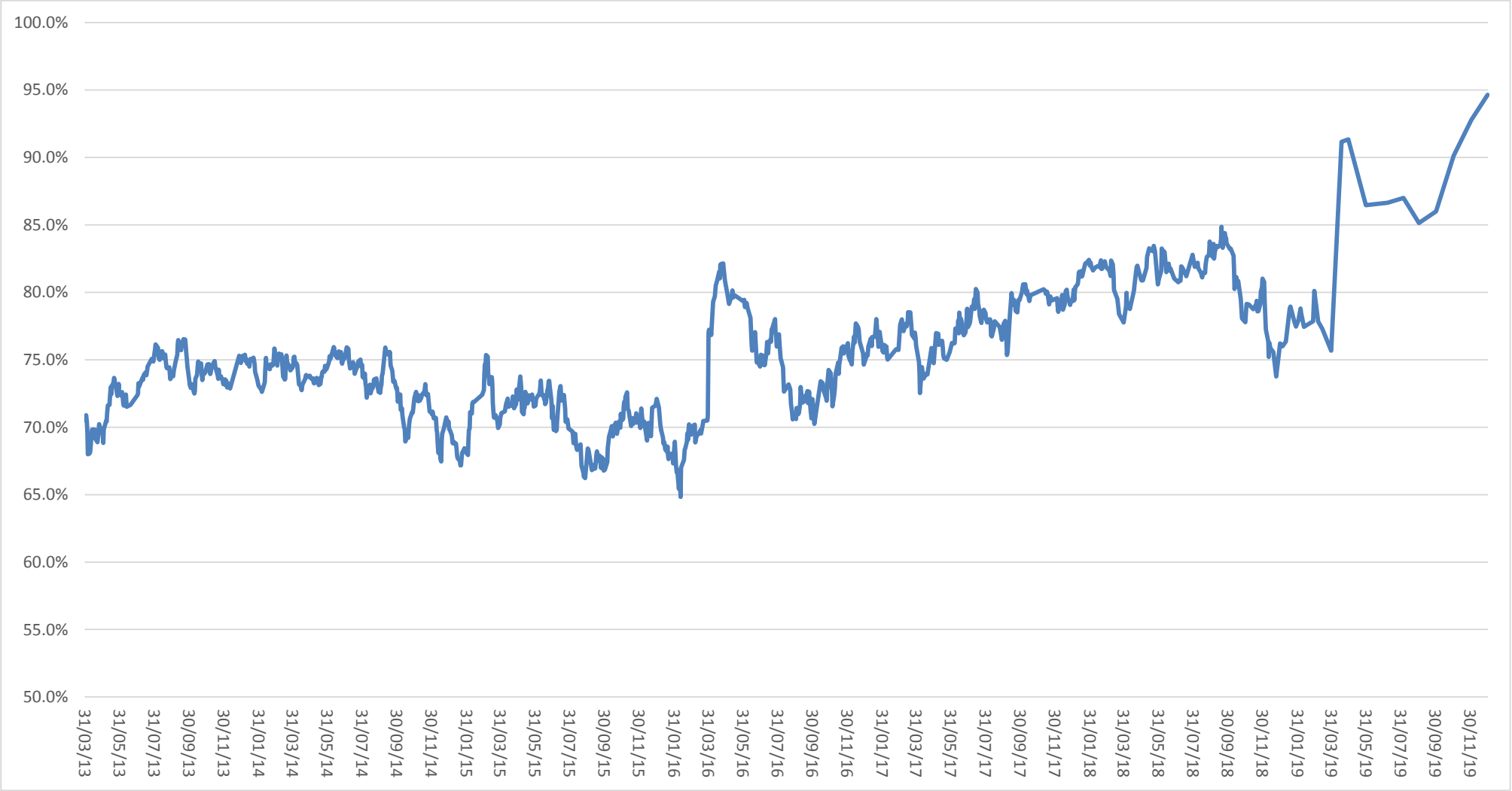
This page is intentionally left blank

APPENDIX 1 - Fund Asset Values 31 March 2013 to 31 December 2019



Funding Level between 31 March 2013 to 31 December 2019

Page 30



A Definitions

A.1 Scheduled bodies

Scheduled bodies have an automatic right, and requirement, to be an employer in the LGPS that covers their geographical area. Therefore, scheduled bodies do not need to sign an admission agreement. Scheduled bodies are defined in the LGPS Regulations 2013 in Schedule 2 Part 1. Common examples of scheduled bodies are Unitary Authorities, Police and Fire Authorities and Academies.

A.2 Admitted bodies

Admitted Bodies either become members of the LGPS as a result of a TUPE transfer or following an application to the Fund to become an employer in the scheme. In both cases, their admission is subject to the body meeting the eligibility criteria and an admission agreement being signed by all relevant parties.

A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

Scheduled bodies	LBBB
	Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Riverside Bridge Riverside Free School Riverside School St Margarets Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy
Admitted Bodies	
	Aspens B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Caterlink Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves

	Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners
--	--

B Roles & Responsibilities

B.1 Administering Authority

The London Borough of Barking and Dagenham is, by virtue of Regulation 53 and Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 the “Administering Authority” for the Local Government Pension Scheme within the geographic area of the London Borough of Barking and Dagenham. In its role as Administering Authority (also known as Scheme Manager) the Council is responsible for “*managing and administering the Scheme.*”

It is normal practice within the Local Government Pension Scheme (LGPS) for the role of the Administering Authority to be exercised by a Pensions Committee. In the case of the London Borough of Barking and Dagenham the Council has delegated the exercise of its role as Administering Authority to the Pensions Committee.

Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (As amended), Pensions is not an Executive Function. Therefore, the Cabinet cannot make decisions in respect of a LGPS Pension Fund. The committee responsible for the Pension Fund must report to the Council and cannot be subject to the Cabinet.

B.2 Pensions Committee

Under the Constitution of the London Borough of Barking and Dagenham (May 2018) the Pensions Committee exercises “*on behalf of the Council all the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Barking and Dagenham Pension Fund.*”

The voting membership of the Pensions Committee is seven Councillors. The Committee may also appoint representatives of interested parties (Trade Unions, Admitted Bodies, pensioners etc) as non-voting members.

Responsibilities

As already stated the Pensions Committee exercises all the powers and duties of the Council in relation to the Local Government Pension Scheme (LGPS). As detailed in the Council’s Constitution this includes:

- (i) To approve all policy statements required or prepared under the LGPS Regulations;
- (ii) To be responsible for the overall investment policy, strategy and operation of the Fund and its overall performance, including taking into account the profile of Fund liabilities;
- (iii) To appoint and terminate the appointments of the Fund Actuary, Custodian, professional advisors to, and external managers of, the Fund and agree the basis of their remuneration;
- (iv) To monitor and review the performance of the Fund’s investments including receiving a quarterly report from the Chief Operating Officer;
- (v) To receive actuarial valuations of the Fund;

(vi) To monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board as they apply to pension benefits and the payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme;

(vii) Selection, appointment and termination of external Additional Voluntary Contribution (AVC) providers and reviewing performance;

(viii) To consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

Individual members of the Pensions Committee have a responsibility to obtain a high level of knowledge and skills in relation to their broad ranging responsibilities in respect of the Local Government Pension Scheme. Therefore, ongoing training is essential.

In 2010/2011 CIPFA produced a Pensions Finance, Knowledge & Skills Framework and a Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Barking and Dagenham Pension Fund subsequently adopted the recommendations of the CIPFA Code of Practice and accepted the need for competencies by both Members and Officers in the six technical areas of knowledge and skills as then set out by CIPFA:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and product knowledge (including Investment Strategy)
- Actuarial methods, standards and practices

As a result of changes to the Local Government Pension Scheme and CIPFA guidance since 2014 it is also necessary for members of the Pensions Committee to have clear knowledge and understanding of:

- Pensions Administration (including the role of The Pensions Regulator)

B.3 Fund Administrator

The Chief Operating Officer is responsible as the Fund Administrator for:

- Acting as principal advisor to the Fund
- Ensuring compliance with Legislation, Regulation and Statutory Guidance including advising in respect of the various policy documents and statements required under the LGPS Regulations
- Ensuring effective governance and audit arrangements

On a day to day basis the management and co-ordination of all Pension Fund activity is led by the Investment Fund Manager.

B.4 Fund Actuary

The appointment of a Fund Actuary required in order to comply with Regulations 62 and 64 of the LGPS Regulations 2013.

The Fund Actuary is a completely independent and appropriately qualified adviser who carries out statutorily required Fund Actuarial Valuations and other valuations as required and who will also provide general actuarial advice. The work of the Actuary includes (but is not limited to):

- Undertaking an Actuarial Valuation of the Fund every three years. The next Valuation will be as at 31 March 2019 and the Actuary must complete his report by March 2020. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2020-2021, 2021-2022 and 2022-2023
- Undertaking more limited Valuations in respect of New Employers, Exiting Employers, Bulk Transfers and for Accounting purposes

B.5 Investment Advisor

The Investment Advisor (otherwise known as the Investment Consultant) is completely independent of the Fund and provides advice in respect of investment matters. This includes:

- The Fund's Investment Strategy Statement including its asset allocation
- The selection of investment managers
- Monitoring and reviewing Investment Managers' performance

B.6 The Independent Advisor

The Independent Advisor who is also completely independent of the Fund provides governance and investment challenge and input together with training across the activities and responsibilities of the Fund.

B.7 Investment Managers

External Investment Managers manage the Funds investments on behalf of the Pensions Committee.

The Investment Managers' responsibilities include

- Investment of Pension Fund assets in compliance with legislation, the Fund's Investment Strategy Statement and the Investment Management Agreement between the Pension Fund and the Investment manager
- The selection of investments
- Providing regular reports on performance to the Fund Officers
- Attending the Pensions Committee if requested

As a result of the Government's Investment Pooling initiative the relationship between Investment Managers and the London Borough of Barking and Dagenham Pension Fund will, over an extended period of time, become an indirect relationship due to the increasing involvement of the London Collective Investment Vehicle (London CIV) in the selection and monitoring of Investment Managers.

B.8 Employers

The Employers within the London Borough of Barking and Dagenham Pension Fund are listed at Appendix 2.

Employers have a wide range of responsibilities which include

- Automatically enrolling eligible Employees in the LGPS
- Providing timely and accurate data to the Administering Authority in respect of individual members including joiners, leavers, pay details etc
- Deducting contributions from Employees pay correctly
- Paying to the Administering Authority both Employers and Employees contributions by the due date
- Determining their Discretions policy in accordance with the LGPS Regulations
- Operating Stage 1 of the Internal Dispute Resolution Procedure
- Communicating, as appropriate, with both Scheme Members and the London Borough of Barking and Dagenham Pensions Team

In undertaking their responsibilities Employers should have regard to any documentation issued by the London Borough of Barking and Dagenham in its role as Administering Authority including any Pension Administration Strategy issued in accordance with the LGPS Regulations.

Employers should also be aware of the requirements placed upon them as detailed in the Pension Regulator's Code of Practice No 14 *"Governance and Administration of Public Service Pension Schemes."*

PENSIONS COMMITTEE

11 March 2020

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Recommendations	
<p>The Committee is recommended to note:</p> <ol style="list-style-type: none"> i. that the Fund is cash flow positive ii. the Fund's three-year budget for the period 1 April 2019 to 31 March 2022 iii. That a strategy review will be carried out by the Fund's Investment Advisors, to be presented at the June 2020 Committee iv. Training will be provided to Members prior to June 2020 on asset allocation and investment strategy; and v. Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- March 2020 <p>The Committee is recommended to agree:</p> <ol style="list-style-type: none"> i. the appointment of Hymans Robertson for its Investment Consulting Services and Barnett Waddingham for its Actuarial Services with a start date of 1st April 2020 and 1st July 2020 respectively. ii. the use of the £40m prepayment to the Pension Fund for the following: <ul style="list-style-type: none"> • Retained for potential investment opportunities that arise from market corrections, through an increase in allocation to property or capital calls from infrastructure. • Delegate authority to the Chief Operating Officer, in consultation with advisors and the Fund's Chair, to invest the £40m as investment opportunities arise within the market. 	

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers five main areas including:

- i. Pension Fund Budget 1 April 2019 to 31 March 2022;
- ii. Forecasted cash flow to 31 March 2020;
- iii. Actuarial and Investment Consulting Tender;
- iv. Pension Fund Prepayment options; and
- v. Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- March 2020

2. Pension Fund Budget 1 April 2019 to 31 March 2022

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2022.

Table 1: Pension Fund Budget 1 April 2019 to 31 March 2022

<u>Contributions</u>	2019/20 Budget	2020/21 Budget	2021/22 Budget
Opening Market Value	1,022,000	1,040,500	1,077,300
Employee Contributions			
Council	6,200	6,000	5,800
Admitted bodies	1000	900	800
Scheduled bodies	1,900	1,950	2,000
Employer Contributions			
Council	22,000	21,000	20,000
Admitted bodies	6,900	6,200	5,500
Scheduled bodies	7,100	7,250	7,400
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	48,600	46,800	45,000
<u>Expenditure</u>			
Pensions	(35,000)	(36,500)	(37,500)
Lump Sums and Death Grants	(6,000)	(6,000)	(6,000)
Transfers Out	(2,500)	(2,500)	(2,500)
Administrative expenses	(750)	(700)	(700)
<u>Total Expenditure on members</u>	(44,250)	(45,700)	(46,700)
<u>Net dealings with members</u>	4,350	1,100	(1,700)
<u>Returns on Investments</u>			
Investment Income	7,000	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	(3,100)	(3,100)	(3,100)
Net returns on investments	38,900	39,400	39,400
Net increase (decrease) in assets	43,250	40,500	37,700
Closing Market Value	1,065,250	1,081,000	1,115,000

- 2.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council. The forecast is for the Council contribution to decrease and the admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease in 2020/21 and 2021/22.
- 2.3 An increase in lump sum payments is projected but it is expected that this will be mitigated by an increase in pension strain. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 2.4% for 2019/20.
- 2.4 Overall the Fund is expected to be cashflow negative in 2021/22 if investment income and management expenses are included but return is excluded.

3. Cash flow to 31 December 2019

3.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2019.

Table 2: Forecasted Pension Fund Cash Flow to 31 December 2019

	2019/20 Budget £000's	2019/20 Forecast £000's	Over / Under £000's
Contributions			
Employee Contributions			
Council	6,200	6,800	600
Admitted bodies	1,000	950	(50)
Scheduled bodies	1,900	1,900	0
Employer Contributions			
Council	22,000	24,300	2,300
Admitted bodies	6,900	3,650	(3,250)
Scheduled bodies	7,100	7,000	(100)
Pension Strain	1,000	1,000	0
Transfers In	2,500	5,100	2,600
Total Member Income	48,600	50,700	2,100
Expenditure			
Pensions	(35,000)	(34,800)	200
Lump Sums and Death Grants	(6,000)	(7,000)	(1000)
Payments to and on account of leavers	(2,500)	(2,500)	0
Administrative expenses	(750)	(750)	0
Total Expenditure on members	(44,250)	(45,050)	(800)
Net additions for dealings with members	4,350	5,650	1,300
Returns on Investments			
Investment Income	7,000	7,000	0
Profit (losses)	35,000	35,000	0
Investment management expenses	(3,100)	(3,400)	(300)
Net returns on investments	38,900	38,600	(300)
Net increase (decrease) in the net assets	43,250	44,250	1,000
Asset Values	1,065,250	1,104,750	
Liabilities	-1,347,500	-1,167,189	
Funding Level	79.05%	94.65%	

4. Investment Advisor and Actuary Tender

- 4.1 On 28 January 2020, the Pension Fund tendered for an Actuary and Investment Consultant using the National LGPS Framework for Actuarial and Investment Consultancy Services. A Further Competition was issued as per the framework to assess and evaluate with Actuary and Advisor best meets the Fund's requirement.
- 4.2 A deadline for receipt of proposals was set at 17:00 on 11 February 2020. Officers evaluated and scored each service provider based on specific and targeted technical proposals submitted in providers' application. In addition, specific additional requirements were included as a part of the evaluation criteria.

Evaluation Criteria	Percentage	Basis
Quality Offered	35%	Specific Questions
Service Fit	30%	Presentation + Specific Questions
Value for Money	35%	Model Fund Pricing Portfolio

From this evaluation, two providers from each service were shortlisted for a presentation and interview. Officers and the funds independent advisor interviewed Hymans Robertson and Mercer to provide Investment Consulting Services on Monday 24th February 2020 and Hymans Robertson and Barnett Waddingham to provide Actuarial Services on Wednesday 26th February 2020.

After some deliberation a decision was made to appoint Hymans Robertson for Investment Consulting Services and Barnett Waddingham for its Actuarial Services.

Subject to committee members agreement to the appointment, the contract commencement date for the Investment Consultant will be 1st April 2020 and the start date for the Actuary will be 1st July 2020.

4.3 Recommendations

Members are asked to agree the appointment of Hymans Robertson for Investment Consulting Services and Barnett Waddingham for its Actuarial Services with a start date of 1st April 2020 and 1st July 2020 respectively.

4.4 Strategy Review

Subject to their appointment being agreed, Hymans Robertson will be asked to provide a Strategy Review report for Member consideration at the June Pension Committee, using the actuarial assumptions and cashflows provided by the current actuary. The Strategy Review will likely contain several strategy recommendations and training will be provided to Members in advance of this report on asset allocation and investment strategy.

5. Pension Fund Prepayment Options

- 5.1 As part of the Council's savings options, it prepaid two years' worth of pension contribution totalling £40m to the Pension Fund for 2018/19 and again for 2019/20. A

prepayment of contributions is where a lump sum payment is made to the Pension Fund by the Council and it is based on the likely employer contribution. During the year the first-year prepayment is repaid in twelve equal amounts (i.e. £20m is repaid in twelve equal amounts), with the actual employer contributions paid each month to ensure that the correct contribution rates are paid. For the prepayment an amount is paid by the Pension Fund to the Council that equates to the discount rate. For 2019/20 this equated to an effective interest rate of 4.1%, with the interest rate for 2020/21 to be 4.0%.

- 5.2 There is currently an underweight position in Infrastructure of 1.8% which equates to approximately £20m and an underweight position in credit and property of similar values. The Fund is currently fully invested and has a short-term borrowing position of approximately £6m with the Council.

Table 1: Current Asset Allocation

Asset Class	Allocation as at 31 Dec 2019	Strategic Allocation Target	Variance
Equities	54.5%	48%	6.5%
Diversified Growth	15.0%	16%	-1.0%
Infrastructure	7.2%	9%	-1.8%
Credit	6.6%	8%	-1.4%
Property	5.6%	7%	-1.4%
Diversified Alternatives	7.3%	8%	-0.7%
Fixed Income	3.4%	4%	-0.6%
Cash	0.3%	0%	0.3%
Senior Loan	0.0%	0%	0.0%

- 5.3 A strategy review will be carried out in the second quarter of 2020, with a report including recommendations for strategy changes to be presented to Members at the June 2020 Committee Meeting. Part of this review will cover the use of the prepayment as a mechanism to support the Fund's working capital requirements.

- 5.4 It is recommended that the use of the £40m prepayment is used for the following:

- i. Retained for potential investment opportunities that arise from market corrections, through an increase in allocation to property or capital calls from infrastructure.
- ii. Delegate authority to the Chief Operating Officer, in consultation with advisors and the Fund's Chair, to invest the £40m as investment opportunities arise within the market.

- 5.5 It is recommended that a prepayment is made of £20m on 1 April 2020. This will take the total prepayment amount to £40m.

6. Independent Advisors LGPS Update on Scheme Advisory Board Project Good Governance in the LGPS and other significant developments in the LGPS- March 2020

6.1 Introduction

The purpose of this paper is to update the Pensions Committee on a number of major developments in the Local Government Pension Scheme (LGPS). This paper does not seek to address every significant issue relevant to the LGPS but focusses on four issues:

- Good Governance in the LGPS project, particularly the Phase II report
- The “McCloud Case”
- Updating of Knowledge and Skills requirements (Update of CIPFA frameworks etc)
- The Pension Regulator’s report on Governance and Administration in the LGPS

6.2 **Good Governance in the LGPS project**

Background

As reported in previous papers (Pensions Committee 13 March 2019, Item 7, Appendix 1; 12 June 2019 Item 7, Appendix 1; 18 September 2019, Item 6) the Scheme Advisory Board (SAB) invited proposals from interested parties to assist it in developing options for change with regard to the relationship of LGPS Pension Funds to their existing host authorities. Hymans Robertson were awarded the contract to work with the SAB and completed work leading to a report to the SAB the final version of which was released on 31 July 2019.

In their July 2019 report Hymans Robertson did not suggest any structural change in relation to the number of LGPS Funds in England and Wales (87 at the time this report was issued) but rather *“informed by feedback from stakeholders”* made four proposals for consideration by the SAB also stating *“many are things which well-run funds already do.”* The proposals were:

1. **‘Outcomes-based’ approach** to LGPS governance with minimum standards rather than a prescribed governance structure.
2. **Critical features of the ‘outcomes based’ model** to include:
 - a. Robust conflict management including clarity on roles and responsibilities for decision making.
 - b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget.
 - c. Explanation of policy on employer and scheme member engagement and representation in governance.
 - d. Regular independent review of governance.
3. **Enhanced training requirements** for Section 151 (Chief Finance Officers) and Section 101 (Pension) Committee members with training requirements for Pension Committee members on a par with Local Pension Board members.
4. **Update relevant guidance and better sign-posting** including suggestions that CIPFA review and update guidance for Section 151 (Chief Finance) Officers in respect of LGPS governance and that the MHCLG review and update Statutory Guidance on LGPS governance issued in 2008.

- 6.3 The Board meeting of the SAB held on 8 July 2019 agreed that the SAB Secretariat (Officers) should in liaison with the project team from Hymans Robertson and

Scheme stakeholders develop a detailed plan to implement the conclusions from the Hymans Robertson report for presentation to the November meeting of the SAB. Two stakeholder working groups were to be established to take forward the Hymans Robertson proposals.

The Standards and Outcomes Workstream focussed on specifying clearly the outcomes and standards to be achieved by LGPS Funds under the proposed new governance approach. The Compliance and Improvement Workstream focussed on the compliance arrangements to independently assess LGPS Funds against the new governance approach. The working groups comprised a total of 20 representatives from a diverse range of stakeholders supported by 4 Hymans Robertson representatives. A report by both workstreams and Hymans Robertson, including detailed implementation proposals was considered by the SAB and issued in November 2019.

6.4 Overview of the “Good governance in the LGPS Phase II report”

The Good governance in the LGPS Phase II report contains the proposals of both the Standards and Outcomes, and the Compliance and Improvement Workstreams to take forward the proposals contained in the “Good governance in the LGPS” report of July 2019. The preparation of the Phase II report included two full days of meetings, in London. On the first day, in September, the Standards and Outcomes Workstream met in the morning and the Compliance and Improvement Workstream in the afternoon. On the second day, in October, both Workstreams met together for a whole day. Hymans Robertson facilitated and provided revised draft documentation throughout the process. Following the second day of meetings in October a further draft report was prepared by Hymans Robertson and Workstream members given 10 days to make any further comments. The final Phase II report was issued to members of the Scheme Advisory Board in late October ahead of their meeting on 6 November 2020.

6.5 Workstream 1 Standards and Outcomes

The Standards and Outcomes Workstream made observations and recommendations in respect of the following issues: *General* (overall governance issues), *Conflicts of interest*, *Representation*, *Skills and training*, *Service delivery for the LGPS function*.

General:

In order to seek to ensure the actual implementation of, and compliance with, the proposed new governance arrangements across the entire LGPS in England and Wales the report states (page 2) that “*It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance.....*” The recommendation (A.1) that MHCLG “*produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals*” in the report is absolutely essential if the new LGPS governance arrangements arising from the Good governance in the LGPS project are to be compulsory on all LGPS Funds across England and Wales.

To further enhance Fund governance the report proposes (page 2) that “*each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151*

officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund's business. The role of the responsible person should be assigned through the host authority's scheme of delegation and constitution...."

This statement and the accompanying recommendation (A.2) are particularly important in terms of seeking to ensure the proper oversight of each LGPS Fund by a single officer. This would, for example, end the practice of some Administering Authorities where the LGPS Investment and Pensions Administration functions ultimately report to separate Chief Officers. Perhaps most fundamentally, however, this proposal seeks to ensure a clear focus on the LGPS through the designation by the Council of a named single officer *"responsible for the delivery of all LGPS related activity."*

The proposal seeks to ensure that the single named officer is genuinely involved in, and both capable of and willing to oversee the LGPS function in its entirety. While the proposal is clear that the single named officer *"may be"* the Council's Section 151 Officer it is also very clear that this may not necessarily be the appropriate approach. Where the LGPS senior officer is not the S151 Officer that officer would, of course, retain their statutory financial responsibilities relating to the Pension Fund just as they do for other services, such as Adult Social Care, where they are not actually responsible for the delivery of that service themselves.

The report proposes (page 2) that each LGPS Fund *"must produce an enhanced annual governance compliance statement"* also recommends (A.3) that *"Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the [MHCLG] guidance."* This enhanced Governance Compliance Statement will be examined as part of the regular Independent Governance Review the details of which are proposed later in the Phase II report.

The recommendations in relation to new Statutory Guidance, the *"LGPS senior officer"* and the enhanced Governance Compliance statement should hopefully ensure that the remainder of the proposals/recommendations in the Good governance in the LGPS Phase II report are actually and positively implemented across all LGPS Funds in England and Wales.

Conflicts of interest:

II report (page 3) include:

- *Contribution setting for the AA [Administering Authority] and other employers*
- *Cross charging for services or shared resourcing between the AA and the Fund*
- *Local investment decisions*

The inclusion of potential Conflicts relating to the LGPS Fund and its interaction with the host Council and the local area further emphasises, and seeks to ensure,

the practical separation of the activities of the Council as a whole and that of the Pension Fund. This is logical and appropriate as the LGPS Fund exists to provide pension benefits to individual members (employees) and their dependants and includes other employers than the Administering Authority and employees who do not/did not work for the Administering Authority.

Representation:

Recognising the fact that the LGPS includes other Employers than the Administering Authorities and that the LGPS exists to provide pension benefits to its individual members and their dependants the Phase II report (page 4), while recognising it is a matter for the Administering Authority as to who is appointed to any LGPS decision making body (usually the Pensions Committee), recommends (C.1) that *“Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.”* Clearly this recommendation will require each Administering Authority to actively consider its policy on these matters and publicly explain it.

The section on representation also includes the statement that *“Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities.”* The Phase II report is also clear, however, as to the ultimate responsibility of the Administering Authority for the LGPS in their area commenting that the MHCLG *“Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies to reflect their statutory responsibilities for maintaining the fund.”*

Skills and Training:

The Phase II report (page 5) recommends (D.1) that both Pension Committee members and LGPS Officers should be subject, under the new MHCLG guidance, to a similar requirement to maintain knowledge and understanding as are Pension Board members. This is entirely logical and appropriate given Pension Boards (usually) do not have decision making powers but both Pension Committees and Officers do.

The Phase II report also includes a recommendation (D.2) that both Administering Authority and non Administering Authority S151 Officers be required by their professional body to *“carry out LGPS relevant training as part of their CPD requirements....”* Recommendation D.4 states *“CIPFA and other relevant professional bodies....be asked to produce.... training.... for s151 officers.....”* It is clearly absolutely essential that S151 Officers of Administering Authorities (whether or not they are designated as *“the LGPS senior officer”*) have a clear knowledge and understanding of the LGPS. The proposed requirement that S151 Officers of non Administering Authorities also be required to obtain what the Phase II report describes as *“A level of LGPS knowledge”* is a very positive development in helping ensure other Employers engage actively and knowledgably with their LGPS Fund and that misunderstandings are minimised.

Recommendation D.3 seeks to ensure that LGPS Funds implement the enhanced training requirements by requiring them (D.3) to *“publish a policy setting out their approach to the delivery, assessment and recording of training plans.....”*

Service delivery for the LGPS function:

The Good governance in the LGPS (Phase I) report of July 2019 was clear that LGPS Funds should be able to evidence that their resource (both quantity and competency) is such that they can meet regulatory requirements and that their budget is such to facilitate this. The Phase II report (page 6) states that this resource requirement *“refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.”* Clearly therefore LGPS Funds are expected to ensure they are properly resourced across the entire broad range of their functions and responsibilities.

In order to provide some measure of performance the Phase II report on page 7 (Recommendation E.3) proposes that *Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.”* The narrative in the report (page 6) suggests that *“A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed....”*

A proper and sufficient budget based on a proper Fund Business Plan is clearly essential for the effective delivery of the LGPS function by each individual LGPS Fund. Therefore, the Phase II report narrative (page 6) includes a statement that each LGPS Fund (Administering Authority) should have its own budget and that this is *“set and managed separately from the expenditure of the host authority.”* The report narrative goes on to state *“Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers.”*

The narrative (page 6) also includes the statement that *“Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver”*

The narrative (page 6) emphasises the role of the Pension Committee (and the Pension Board) with the statements *“The budget setting process should be initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board”* and *“Typically this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan.....”* Recommendation E.4 (page 7) places a clear responsibility on both the LGPS Senior Officer and the Pensions Committee for the sufficiency of resources to provide an effective LGPS service stating *“Each administering authority must ensure their committee is included in the business planning process. Both the committee and the LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.”*

The Good governance in the LGPS (Phase I) report of July 2019 (page 16) recognised the clear recruitment and retention issues facing those LGPS Funds seeking to provide a proper and effective service. The Phase I report included the statements that *“Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing*

policies such as recruitment freezes” and “Many administering authorities already have pay and recruitment policies relevant to the needs of their pension function rather than being tied to the general policies of the Council.”

The Phase II report further develops and reiterates the theme that the LGPS function should not be simply be treated in the same way as a General Fund function in relation to Human Resource policies and practices. Rather Human Resource policies and practices applied to the LGPS function should positively facilitate the delivery of the Pensions function. The Phase II report narrative (page 7) includes the statement *“Each Administering Authority has a duty to ensure that its pension function is staffed such as to enable it to deliver an effective pensions service to all the fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.”* The Phase II report includes a specific recommendation (E.5) on page 7 in respect Human Resource policies applicable to LGPS Funds stating *“Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.”*

6.6 Workstream 2 Compliance and Improvement

The Compliance and Improvement Workstream made observations and recommendations in respect of the arrangements for the regular independent review of LGPS Fund governance arrangements in the context of the requirements as set out in the proposed new Statutory Guidance to be issued by MHCLG (recommendation A.1 of the Standards and Outcomes Workstream) to implement the proposals made in the Phase II Good governance in the LGPS report.

Compliance and Improvement:

Workstream 2 recommended (F.1) on page 9 that *“Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.”* Such an approach is essential if the proposals of the Standards and Outcomes Workstream are to be genuinely implemented across all LGPS Funds and both good and questionable practice identified and as appropriate responded to by the Scheme Advisory Board and MHCLG.

The narrative (on page 8) includes the following statement *“The new MHCLG guidance should set out a process for an Independent Governance Review....”* Amongst the features of this suggested in the Phase II report are:

- *“It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance”*
- *“There should be a standardised framework and process for IGRs...”*

- *“It is critical that the IGR should be conducted by appropriate persons who: properly understand the LGPS; are sufficiently at arm’s length from the pensions function....; are in some way “accredited to ensure consistent standards of review.”*
- A *“procurement framework”* be put in place for IGR suppliers
- *“.... Funds may appoint an external supplier”* from the framework
- Alternatively, an Administering Authority *“may choose to have their IGR carried out by their own internal audit or another appropriate party to the same standards as the framework.”*
- Each LGPS Fund *“should have an IGR completed biennially”*
- SAB may *“as a result of concerns”* direct that an Administering Authority *“must have”* an IGR *“outside of the two year cycle.”*
- Results of the IGR review will be reported to the LGPS Fund and Local Pension Board
- *“The Administering Authority must develop an improvement plan to address any issues raised in the IGR”*
- The IGR and improvement plan *“must be published and also be submitted to SAB.....”*
- *“SAB will put in place a panel of independent experts to scrutinise IGR reports, looking for outliers and areas of concern....”*
- *“The SAB panel may enter into discussions with funds..... Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.”*
- *“Failure to submit an IGR report by the required date will result in automatic referral”*

The above narrative indicates that a robust compliance and improvement regime is to be implemented. Perhaps the only significant weakness is that the Phase II report proposes allowing LGPS Funds not to have to select an external supplier from the proposed framework but that an Administering Authority *“may choose to have their IGR carried out by their own internal audit or another appropriate party to the same standards as the framework.”* This caveat weakens the compliance and improvement proposal as internal audit services or *“another appropriate party”* may not necessarily have the knowledge and skills to properly undertake the IGR and may also possibly be considered not to be fully independent from the Administering Authority. The most robust approach to compliance and improvement is surely the selection of a supplier from the procurement framework proposed in the Phase II report narrative (page 8, section F.1. d & e) who has no current relationship with the Administering Authority.

The Compliance and Improvement Workstream made a second recommendation, on page 9, (F.2) that *“LGA to consider establishing a peer review process for LGPS*

Funds.” As the narrative in the report indicates (page 9) an LGA (Local Government Association) peer review is requested by a Council and results in a small team of external Officers and Councillors “*spending time at the council as peers to provide challenge and share learning....*” The Phase II report suggests that “*a similar peer challenge process is established for the LGPS.*”

6.7 Next Steps

The main body of the Good Governance in the LGPS Phase II report ends with a “Next steps” section (page 10). This states:

“The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.”

“Phase III should contain the following elements:”

1. *“MHCLG to draft the required changes to the Guidance.”*
2. *“SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.”*
3. *“SAB to establish the 10-15 KPIs.... within proposal E.3.”*
4. *“It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund’s position on all areas of governance and compliance.....”*

At the meeting of the SAB Board meeting held on 6 November 2019 it was determined that:

- The Good Governance Phase II report to be published
- The SAB Secretariat, with Hymans Robertson and stakeholders, should develop Phase III of the project including the draft Statutory Guidance and key performance indicators
- Comments on the Phase II recommendations be invited
- Final proposals for Phase III to be considered by the Board on 3 February 2020

At the meeting of the Scheme Advisory Board held on 3 February 2020 it was proposed that the two working groups who prepared the Phase II report be combined to form an Implementation Group. It was further proposed that this group prepare a detailed paper for consideration by the Board at its meeting on 4 May 2020 to include proposals for necessary changes to the LGPS Regulations and new Statutory Guidance, the establishment of Key Performance Indicators for the LGPS, and the process for the independent assessment of LGPS Fund governance.

6.8 The McCloud Case

As reported in the LGPS Update report presented to the Pensions Committee on 12 June 2019 (Item 7, Appendix 1) there had been legal challenges to the transitional protections contained in the 2015 Judges and Firefighters Pension Schemes. This challenge is referred to collectively as the ‘McCloud Case.’ On 20 December 2018,

the Court of Appeal found that these transitional protections were unlawful on the grounds of age discrimination.

The Government applied to the Supreme Court to appeal the decision but, on 27 June 2019, this was denied meaning that the Court of Appeal's decision was upheld and the "McCloud Case" be returned to an employment tribunal for a detailed decision. On 15 July 2019 the Chief Secretary to the Treasury issued a written statement that the implications of the "McCloud Case" applied to the other major public service pension schemes including the LGPS.

The protections introduced into the LGPS when it was revised from 1 April 2014 were applied to members who were within 10 years of retirement. As a result of the "McCloud" case these protections are unlawful.

Therefore, those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.

Although the exact nature of the remedy is yet to be determined it will (very likely) require eligible members benefits to be calculated on the best of either "average" or "final" salary. There are however a number of important decisions that need to be made around areas including: Eligibility (at what date did someone have to be a Scheme Member to be covered by the remedy); Operation of the Protection or "underpin" (will the protection apply for all service accrued from 1 April 2014 until retirement or will there be an end date to the protection); Retrospection (how will members who have left since 2014 be dealt with/have their benefits rectified); Administration (the actual administration of any remedy needs to be considered to seek to avoid additional complexity and disproportionate cost).

Given the implications of the "McCloud Case" the LGPS Scheme Advisory Board for England and Wales (SAB) has stated *"a full history of part time hour changes and service break information from 1 April 2014 will be needed in order to recreate final salary service. We recommended that administering authorities make Scheme employers aware of this."* The SAB has also stated *"It is also likely that..... all leavers since 2014 will need to be checked against a new underpin."* and that *"We expect decisions relating to members in scope, the extent of final salary service protection, the requirement for retrospection and the inclusion of ancillary benefits (transfers, survivors etc) to be determined centrally. We don't expect to see any remedy implemented before the end of financial year 2020/21."*

6.9 **Updating of Knowledge and Skills requirements (Update of CIPFA frameworks etc)**

It is clearly fundamental that those involved in the governance of the LGPS whether Officers, Pension Committee members or Pension Board members have the appropriate knowledge, understanding and skills to properly and effectively discharge their duties.

In 2010 CIPFA produced two *"Pensions Finance Knowledge and Skills"* frameworks - one for *"Elected Representatives and Non Executive Members"* (essentially Pension Committee members) and one for *"Pensions Practitioners"* (essentially

Fund Officers). These were supplemented in 2013 by the “*Code of Practice on Public Sector Pensions Finance Knowledge and Skills.*” Together these three publications presently form the basis of recommended Knowledge and Skills framework/approach for those involved in LGPS governance and decision making. These documents were supplemented in 2014 by a LGPS specific supplement to the CIPFA statement on the role of the Chief Finance Officer and in 2015 by “*A Technical Knowledge and Skills Framework*” for Local Pension Boards.

Given the main CIPFA guidance on Knowledge and Skills requirements pre dates the introduction of the present LGPS arrangements in 2014 and has not been updated to take account of developments since 2014 there is clearly an urgent need for a review. Therefore, CIPFA have initiated such a review utilising AON (one of the leading Investment Consultancy and Actuarial firms to the LGPS community) to undertake the detailed work.

The Agenda for this review includes review and amalgamation of existing guidance; expansion of the guidance; the application of the new guidance; consideration of delivery, monitoring, reporting and compliance. As part of the Knowledge and Skills revision exercise a number of other areas of guidance/development are been utilised/considered. These include not only CIPFA guidance/documents on issues including risk, investment pooling and the preparation of the Pension Fund Annual Report but MHCLG Statutory Guidance; the Scheme Advisory Board MiFID II opting up process/guidance; and The Pensions Regulator’s Code of Practice for Public Service Pension Schemes.

The Objectives of the Knowledge and Skills review may be summarised as:

- **Amalgamation** of guidance
- **Updating** of guidance to incorporate developments including investment Pooling and MiFID II
- **Clarification** of expected standards, including linkage to the SAB “Good governance in the LGPS” project expectations regarding training requirements for Pension Committee Members and Chief Finance (Section 151) Officers
- **Education** including through the provision of examples and ensuring a focus on decision makers and senior LGPS Fund Officers

The project to review the LGPS Pensions Knowledge and Skills arrangements commenced in the Autumn of 2019 and is expected to be concluded during the Spring of 2020. New guidance/frameworks will then be launched by CIPFA.

6.10 The Pension Regulator’s report on Governance and Administration in the LGPS

On 19 September 2019 The Pensions Regulator (TPR) published a report entitled “***Governance and administration risks in public service pension schemes: an engagement report.***” This report is concerned specifically with the LGPS. The report is based on TPR engagement with 10 local government funds across the UK, to understand approaches to a range of important risks.

The engagement occurred between October 2018 and July 2019. According to the report the review was based on meetings with LGPS Funds supplemented by review of some documentation and examples of communications sent to members, prospective members and beneficiaries.

The report contains **Findings, Recommendations and Case Studies** covering the following: Record Keeping; Internal Controls; Administrators; Member Communication; Internal Dispute Resolution Procedure; Pension Boards; Employers and Contributions; Cyber Security; Internal Frauds.

Below is a summary of the report under each topic heading:

Record Keeping

Fundamentally the record keeping section commences with the statement *“Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions.....”*

Findings: *“Many scheme managers have moved from annual to monthly member data collection.....Well-run funds are aware of the quality of the common and scheme specific data they hold.... They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.”*

Recommendations *“.... Data quality needs regular review. A robust data improvement plan should be implemented as appropriate. The quality of member data should be understood by the Scheme Manager and Pension Board.... An action plan should be implemented to address any poor data found.... The Pension Board should review the PAS and ensure it will stand up to challenges from employers.”*

Internal Controls

Findings: *“.... Some funds had detailed risk management frameworks in place.... Others lack detailed risk registers or do not review the risks to the fund on a frequent basis.....We found evidence.... of key person risk, where a long serving member of staff has developed a high level of knowledge... but this knowledge is not documented....”*

Recommendations: *“A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board.... The pension board should have good oversight of the risks and review these at each pension board meeting. Internal controls and processes should be recorded, avoiding an over reliance on a single person’s knowledge levels.....”*

Administrators

Findings: *“Better performing scheme managers have a close relationship with their administrator.... robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done.....”*

Recommendations: *“Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve.... It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.....”*

Member Communication

Findings: *“.....It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non technical staff to check readability and whether it is comprehensive....”*

Recommendations: *“Information sent to members should be clear, precise and free from jargon.....It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys.”*

Internal Dispute Resolution Procedure (IDRP)

Findings: *“Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they receive.... Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published.....Not all scheme managers have a clear definition of a complaint.”*

Recommendations: *“There should be a clear internal policy on how to handle complaints.....People entitled to use the IDRP should be given clear information about how it operates. This information should be easily available, eg on the fund website. The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house. Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.”*

Pension Boards

Findings: *“Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds.... Additionally, some boards have independent chairs, depending on the needs of the individual pension board. We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards.... Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding. where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.”*

Recommendations: *“The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance. Individual pension board member training and training needs should be assessed and clearly recorded. The pension board should meet an appropriate number of times a year, at least quarterly..... Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund..... Pension board members should be fully engaged and challenge parties where appropriate.”*

Employers and Contributions

Findings: *“... Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund’s resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk. Most scheme managers seek security from employers to*

mitigate the risk of a failure to pay contributions.....Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.”

Recommendations: *“Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions.... Employer solvency should be considered on an ongoing basis and not just at the time of each valuation. Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier.... Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees. Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security.....Where security is in place, Scheme Managers should have a policy on when the security should be triggered.”*

Cyber Security:

Findings: *“Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority. Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did not appear on the risk register.....”*

Recommendations: *“Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register. Regular, independent, penetration testing should be carried out.....Where cyber security is maintained by the Local*

Authority.... the scheme manager should understand the procedure and ensure the fund's requirements are met....”

Internal Fraud and False Claims

Findings: “Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source.... Scheme managers of well run funds typically take steps to regularly screen member existence.... Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds....”

Recommendations: “Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud. A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment. A scheme

manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.....”

6.11 Conclusion

The Conclusion section of TPR report includes the following observations:

“Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS”

“It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures.....” It is particularly noteworthy that this statement in the Conclusion accords with the proposals in the “Good governance in the LGPS Phase II report” concerning the need to ensure that the governance and operation of LGPS Funds takes into account careful consideration of the particular and different nature of the LGPS from other Council functions and that policies and procedures applied to the LGPS Fund should not simply be those applied to the Council in general.

“Good quality data and record-keeping standards underpin all aspects of successfully running a fund.....”

“Scheme managers that have developed and implemented a robust pension administration strategy have found them useful....”

“A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk.”

“Measuring governance and administration is challenging and requires more than just an analysis of raw figures....”

“Risks to funds are constantly changing and evolving.... Scheme managers should..... adapt their approaches accordingly.....”

7. Consultation

- 7.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the commentary in this report.

8. Financial Implications

Implications completed by: Philip Gregory, Director of Finance

- 8.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

9. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

- 9.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

10. Other Implications

- 10.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long-term workload of the Pension Fund. This will continue to be monitored.

Background Papers Used in the Preparation of the Report:

Independent Advisors LGPS Update

1. The report "**Good governance in the LGPS**", July 2019 can be accessed at <http://www.lgpsboard.org/images/PDF/GGreport.pdf>

2. The report "**Good governance in the LGPS, Phase II report from Working Groups to SAB**", November 2019 can be accessed at https://www.lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf

3. The report "**Governance and administration risks in public service pension schemes: an engagement report**" (The Pensions Regulator, September 2019) can be accessed at <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

This page is intentionally left blank

PENSIONS COMMITTEE

11 March 2020

Title: Triennial Valuation Draft Results	
Report of the Strategic Director, Finance & Investment	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Recommendations	
The Committee is recommended to note:	
<ul style="list-style-type: none"> i. The results of the actuarial valuation, including the improved funding level; and ii. That the Funding Strategy Statement will be updated where necessary for the assumptions made by the actuary and consulted with admitted and scheduled bodies together with their proposed employer contribution rates. 	

1. Introduction

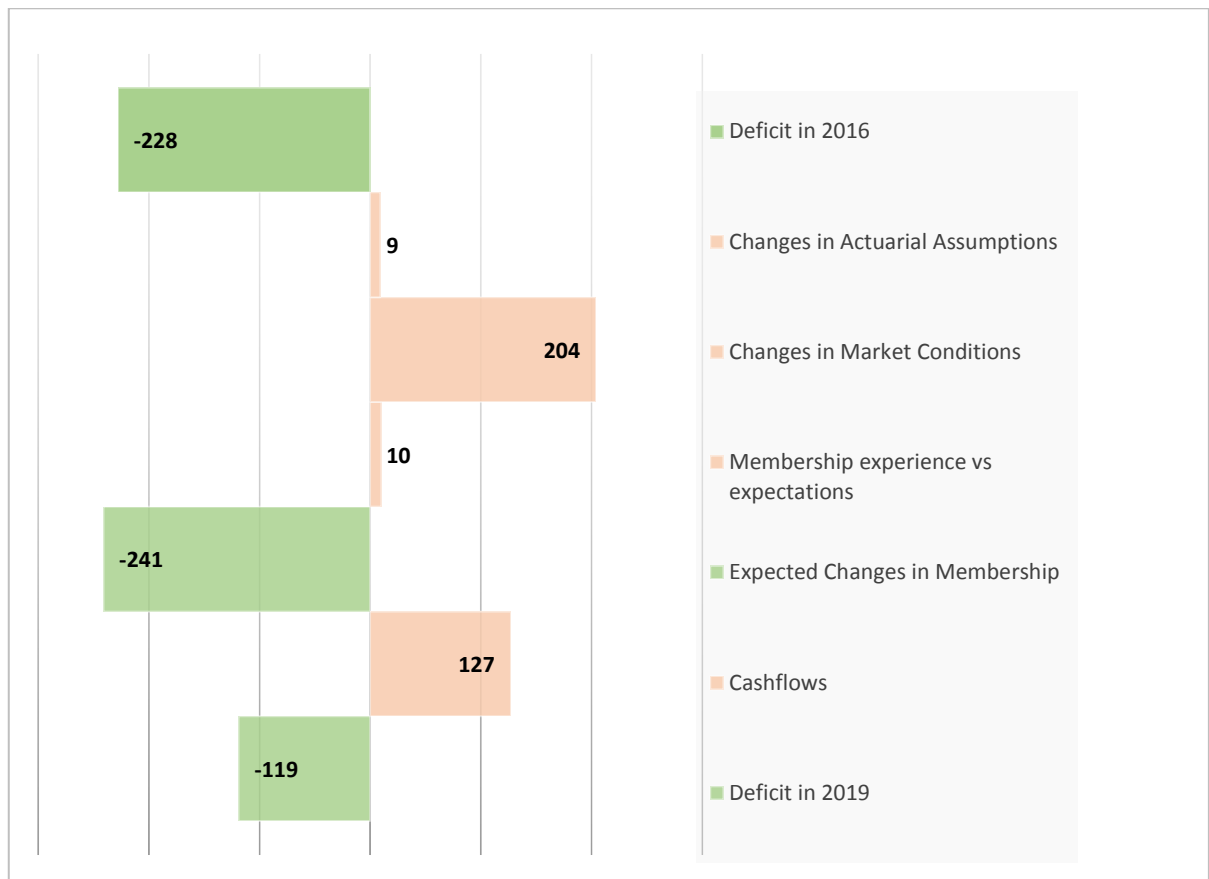
- 1.1 Every three years the Pension Fund is required to have a full valuation of its liabilities carried out by its actuary.

2. Whole Fund Valuation Results

- 2.1 Officers have discussed the valuation assumptions with the actuary and agreed the main assumptions, including the deficit contributions rate, the discount rate and salary increase assumptions. As a result of these discussions the actuary could produce the whole fund valuation calculations. The results show that, at a whole Fund level, the deficit has reduced from £228m to £119m and the funding level has improved to 90% from the 2016 level of 77%.

2.2 The main contributors to the reduced deficit and improved funding level are outlined in the chart below:

Chart 1: Movements in Triennial Valuation Assumptions



2.3 Overall the fund has adopted a prudent discount rate of 4.0%. This is lower than the 4.1% used in the 2016 valuation. The deficit recovery period has stayed the same at 17 years.

2.4 Below is a summary of the agreed financial assumptions and the results:

Valuation Date	2007	2010	2013	2016	2019
Past Service Liabilities	£Ms	£Ms	£Ms	£Ms	£Ms
Employees	-£285	-£298	-£316	-£324	-£323
Deferred Pensioners	-£81	-£117	-£180	-£221	-£287
Pensioners	-£239	-£314	-£406	-£456	-£531
Total Liabilities	-£605	-£729	-£902	-£1,001	-£1,141
Assets	£530	£549	£636	£772	£1,022
Surplus / (Deficit)	-£75	-£180	-£266	-£229	-£119
Funding Level	88.00%	75.40%	70.60%	77.20%	90.00%
Discount Rate	6.10%	6.10%	4.70%	4.10%	4.00%
Salary Increases	4.70%	5.30%	3.80%	2.60%	3.00%
Price Inflation	3.20%	3.30%	2.50%	2.10%	2.30%

3. Employer draft results

- 3.1 A meeting was held on the 15th January 2020 with the with the actuary and the Fund's various employers to discuss the draft Triennial Results. Representatives from the University of East London, Barking College and a representative for many of the Fund's academies were present.
- 3.2 The draft triennial results indicated that the contribution rates for employers varied with some rates dropping and some increasing.
- 3.3 The UEL, which is the second largest employer within the Fund after the Council, has effectively closed its Local Government Pension Scheme to new entrants. This makes the deficit recovery plan riskier as there are less members contributing to the deficit recovery. To reduce this risk, but also to ensure that their contribution rate remains affordable, the UEL has advised that they would be willing to provide a charge against their assets to cover the deficit.
- 3.4 The actuary and officers have also produced a draft Funding Strategy Statement which was distributed to Fund employers for their views as part of a consultation.

4. Next Steps

- 4.1 The actuary is in the process of finalising the contribution rates for the borough and all the admitted and scheduled bodies and will issue certification.
- 4.2 In addition an Investment Strategy review will be carried out by the fund's Investment Advisor, in consultation with the Independent Advisor, the Actuary and officers. The Investment Strategy Statement (previously the Statement of Investment Principles) will be reported back to the Committee's meeting in June 2020 for agreement.

5. Consultation

- 5.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Strategic Director, Finance & Investment and the Fund's Chair have been informed of the commentary in this report.

6. Financial Implications

Implications completed by Philip Gregory, Director of Finance

- 6.1 The triennial valuation is a legal requirement and the cost of the actuarial valuation is met by the Pension Fund.

7. Legal Implications

Implications completed by Dr Paul Feild Senior Governance Solicitor

- 7.1 Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 requires triennial valuations to be carried out by an actuary.

8. Other Implications

- 8.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long term workload of the Pension Fund. This will continue to be monitored.

Background Papers Used in the Preparation of the Report: None

List of appendices: None

PENSIONS COMMITTEE

11 March 2020

Title: Funding Strategy Statement	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
<p>Summary:</p> <p>The Pensions Committee are required to agree the aims and objectives outlined within the Pension Fund's Governance and Investment strategies. Following the triennial valuation, two key strategy documents need to be reviewed and updated. These documents are the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). These documents outline the Fund's funding and investment strategy and have been updated to meet statutory requirements and guidance from the DCLG and the Scheme Advisory Board.</p> <p>The Funding Strategy Statement is summarised in this report, with the final Statement included as appendix to this report. The report is to be reviewed and agreed by the Pensions Committee as part of its review of decision making within the Fund. The Investment Strategy Statement will be produced following a Strategic Asset Allocation Review by the Fund's Investment Advisor in April 2020 which will be submitted to the Committee in June 2020. The report was presented to the Pension Board for information.</p>	
<p>The Committee is recommended to agree:</p> <ul style="list-style-type: none"> i. The Final Funding Strategy Statement <p>The Committee is recommended to note:</p> <ul style="list-style-type: none"> ii. That the final actuarial valuation results, along with the Rates and Adjustments Certificate will be provided by the actuary by 31 March 2020. 	

1. Introduction and Background

- 1.1 London Borough of Barking and Dagenham (the Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) through the London Borough of Barking and Dagenham Pension Fund (the Fund).
- 1.2 As Administering Authority, the Council has delegated responsibility for the administration of the Fund to the Section 151 officer, advised by the Pensions Committee and after taking expert advice from the Fund's Investment Advisor (Aon Hewitt) and the Fund's Independent Advisor, John Raisin.
- 1.3 Every three years the Fund is required to carry out a full valuation of its liabilities, which is completed by the Fund's actuary, with results agreed by the Administering Authority and reported to the Pensions Committee.
- 1.4 The latest Triennial Valuation was completed in 2019, with officers agreeing the valuation assumptions with the actuary, including the deficit contributions rate, the discount rate and salary increase assumptions. The results of the valuation show that, at a whole Fund level, the deficit reduced from £228m to £119m and the funding level has improved to 90% from the 2016 level of 77%.
- 1.5 Overall the Fund has adopted a prudent discount rate of 4.0%. This is slightly lower than the 4.1% used in the 2016 valuation. The deficit recovery period remains at 17 years.
- 1.6 Prior to agreeing the final Triennial Valuation Results, a consultation process needs to be followed. A meeting was held on the 15th January 2020 with the with the actuary and the Fund's various employers to discuss the draft Triennial Results. Representatives from the University of East London, Barking College and a representative for many of the Fund's academies were present.
- 1.7 Draft results were sent to employers in January 2020 for agreement, with the final Triennial Valuation to be agreed by March 2020 when the actuary provides the final Rates and Adjustments Certificate.

2. Funding Strategy Statement (FSS)

- 2.1 After the triennial valuation is completed the FSS must be updated. The purpose of the FSS, as stated by the Department for Communities and Local Government (DCLG) 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.”*

- 2.2 These objectives are desirable individually but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.
- 2.3 This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.
- 2.4 The objectives of the Fund's funding policy are as follows:
- i) to ensure the long-term solvency of the Fund and the long-term solvency of shares of the Fund attributable to individual employers
 - ii) to ensure sufficient funds are available to meet all benefits as they fall due
 - iii) not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
 - iv) to help employers recognise and manage pension liabilities as they accrue
 - v) to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
 - vi) to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
 - vii) to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.
- 2.5 The actuary and officers have produced an FSS, which is included as **Appendix 1** of this report. This was distributed to all Fund employers and was presented to the Pension Board for information.
- 2.6 All proposed amendments have been made to the FSS and therefore, subject to any amendments put forward by the Committee, the report in **Appendix 1** is included for agreement.

3. Investment Strategy Statement (ISS)

- 3.1 The Investment Strategy Statement will be produced following a full Strategic Asset Allocation Review by the fund's Investment Advisor in April 2020. This will be presented for agreement at the meeting of the Pensions Committee in June 2020.

4. Consultation

- 4.1 Council's Pension Fund strategy development involves continuous dialogue and consultation between finance staff and external advisers. For the FSS there was a 30-day consultation with all Fund employers. The consultation process for this FSS was:

- i. A draft version of the FSS issued to all participating employers on 13 January 2020 for comment, and
- ii. Comments requested within 30 days (by 13 February 2020)

The Chief Operating Officer and the Pension Committee's Chair have been informed of the commentary in this report.

5. Financial Implications

Implications completed by Philip Gregory, Director of Finance

- 5.1 The Fund is a statutory requirement to provide a defined benefit pension to scheme members. The Pension Committee's role is agreeing and monitoring the Fund's Governance and Administration strategies. This paper forms part of the reviewing process.

6. Legal Implications

Implications completed by Dr Paul Feild Senior Governance Solicitor

- 6.1 The Funding Strategy Statement (FSS) and the Investment Strategy Statement are connected, with the administering authority setting the strategy, after taking advice. The FSS is a summary of the Fund's approach to funding liabilities.
- 6.2 The FSS shall be prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and taking account of changes brought about by the Local Government Pension Scheme (Amendment) Regulations 2018. The FSS shall also ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013, are met. Furthermore the administering authority must have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA), the most recent being the guide "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme" (2016) and to the Funds Statement of Investment Principles and the Investment Strategy Statement.

7. Other Implications

- 7.1 There are no other immediate implications arising from this report.

Background Papers Used in the Preparation of the Report:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- Local Government Pension Scheme Regulations 2013 (as amended)
- Public Service Pensions Act 2013
- Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme (CIPFA)

List of appendices:

- **Appendix 1 – Final Funding Strategy Statement**

This page is intentionally left blank



London Borough of Barking and Dagenham Pension Fund



Funding Strategy Statement 2019

DRAFT Funding Strategy Statement

PAGE

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	10
4	Funding strategy and links to investment strategy	24
5	Statutory reporting and comparison to other LGPS Funds	24

Appendices

Appendix A – Regulatory framework	256
Appendix B – Responsibilities of key parties	29
Appendix C – Key risks and controls	31
Appendix D – The calculation of Employer contributions	35
Appendix E – Actuarial assumptions	39
Appendix F – Glossary	44

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), which is administered by the London Borough of Barking and Dagenham, (“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 advisers. It is effective from 1 April 2020.

1.2 What is the London Borough of Barking and Dagenham 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 Fund to make sure it:

- receives the proper amount of contributions 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.

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.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

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

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- 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 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; and
- 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 to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due;
- 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; and
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact David Dickinson, Investment Fund Manager in the first instance at e-mail address david.dickinson@lbbd.gov.uk or on telephone number 0208 227 2722.

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?

This is a three-step process:

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

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

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

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report and can also be found in [Appendix G](#). 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.

Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst most members will be local authority employees (and ex-employees), most participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations 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 (i.e. Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regs.

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 Ministry of Housing, Communities and Local Government (MHCLG) regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils can 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 can set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

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

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

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

2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is 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](#).

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 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 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, 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 an explicit allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the likelihoods of success that are used to determine contribution rates.

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. 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 to the Fund.

The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the FSS. 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;
- 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 contributions may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding 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)	No	No	No	No	No
Maximum time horizon – Note (c)	17 years	17 years	17 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term	
Likelihood of achieving target – Note (e)	70%	75%	75%	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	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 changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation is assumed to expire at the end of the contract. Cessation debt/credit (if any) calculated on contractor exit basis, unless the admission agreement is terminated early in which case the low risk exit basis would 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, to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not 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 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 to London Borough of Barking and Dagenham Council as a tax raising body.

Based on extensive modelling carried out for the 2019 valuation exercise, total contributions have been set to ensure that stabilised employers have at least a 70% chance of being fully funded in 17 years under the 2019 formal valuation assumptions.

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, based on 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.

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 and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The 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 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. As an alternative to (iv), the academy may have the option to elect to pay a stabilised rate of contributions as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated assets and liabilities.
- vi. 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.

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 the FSS.

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 the following:

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

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

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

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

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. 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:

- 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.
- 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 a fixed contribution rate throughout its participation in the Fund 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 is willing to administer any of the above options if the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

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 acting 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 1% uplift to the ceasing employer's active and deferred member liability values for cessations on a "gilts exit basis", as an estimate of the possible impact of resulting benefit changes.

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

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

- (a) Where a guarantor does not exist then, 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 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 a security in place for the employer (i.e. a bond indemnity or guarantee).

If the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all 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 an agreement with the ceasing Admission Body. Under this agreement, the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing 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:

- Schools generally are also pooled with their funding Council. However, there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may 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 permitted to enter (or remain in) a pool at the 2019 valuation will not 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 consider 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. The payment is payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

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.

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

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

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. 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.

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

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

The same investment strategy is currently followed for all employers.

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

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

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

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 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 contributions 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 newsletters and 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, 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 A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its 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 on 13th January 2020 for comments;
- b) Comments were requested within 30 days;
- c) The draft FSS will be taken to the Pension Board on 11th March 2020 at which questions regarding the FSS can be raised and answered;
- d) Following the end of the consultation period the FSS will be updated where required and will be taken to the Pension Panel on the 11th March 2020 for agreement.
- e) The FSS will then published by 31 March 2020.
- f) The FSS is made available through the following routes:
 - Published on the website: www.lbbdpensionfund.org;
 - A copy sent by e-mail to each participating employer in the Fund;
 - A full copy included in the annual report and accounts of the Fund;
 - Copies sent to investment managers and advisers.

A3 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 within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

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

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

A4 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 several separate statements published by the Fund including the Investment Strategy Statement, Governance and Communications Strategy and an Annual Report and Accounts with up to date information on the Fund. These documents can be found on the web at www.lbbdpensionfund.org.

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested based on 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.
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 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.

Risk	Summary of Control Mechanisms
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.	The Fund is considering climate change risk alongside the other risks it is exposed to as part of its investment strategy.

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

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional</p>

Risk	Summary of Control Mechanisms
	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, wherever possible (see Notes (h) and (i) 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. 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 the Fund bears them, 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 (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

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

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

D5 How is each employer's asset share calculated?

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

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

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

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

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.

Appendix E – Actuarial assumptions

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

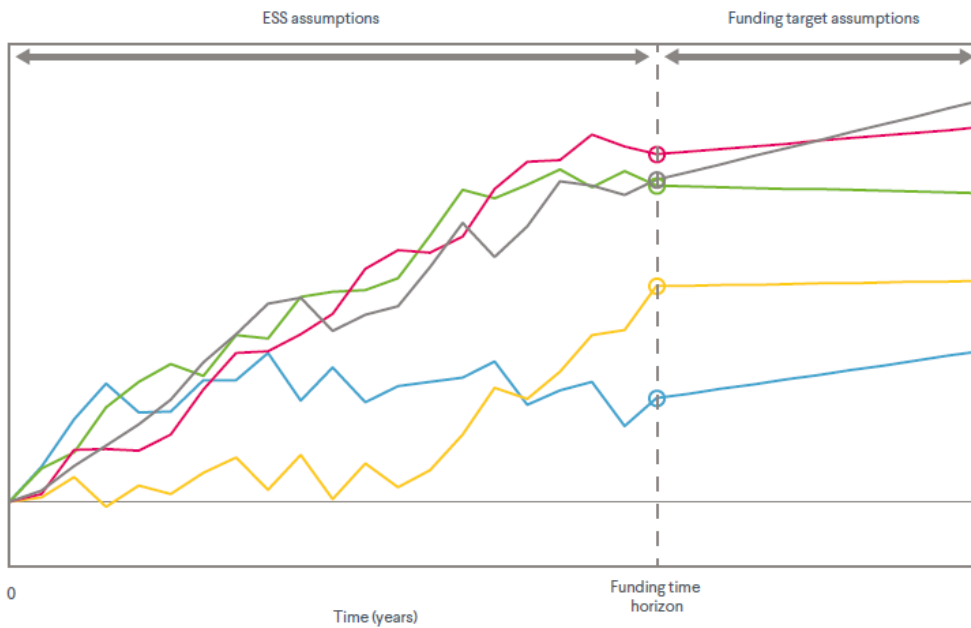
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
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	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.9% p.a.	Long term government bond yields plus an AOA of 1.9% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

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

a) Salary growth

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

1. 2% p.a. until 31 March 2022, followed by
2. retail prices index (RPI) thereafter.

This gives a single “blended” assumption of CPI plus 0.7%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 0.45% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

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

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (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

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 can 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 .
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.
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, are also used in funding as an objective measure of a risk-free rate of return.
Guarantee guarantor	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting

employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

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

- Stabilisation** Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
- Valuation** A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

This page is intentionally left blank

PENSIONS COMMITTEE

11 March 2020

Title: Business Plan Update 2020/21	
Report of the Chief Operating Officer	
Public Report	Public Report
Wards Affected: None	Wards Affected: None
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Recommendations	
The Committee is asked to note progress on the delivery of the 2020/21 Business Plan summarised in Appendix 1 to the report.	

1. Introduction and Background

- 1.1 The purpose of this report is to update the progress regarding the Pension Fund's 2020 business plan.
- 1.2 **Appendix 1** provides a summary of the Business Plan actions from 1 January 2020 to 31 June 2020.
- 1.3 A full business plan for 2020/21 is being drafted and will be taken for agreement to the Pensions Committee in June 2020. This will set out the key tasks for the Pension Committee in respect to the Pension Fund issues for 2020/21.

2. Comments of the Finance Officer

- 2.1 The Business Plan will include the major milestones and issues to be considered by the Committee and includes financial estimates for the investment and administration of the fund and appropriate provision for training.
- 2.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

3. Comments of the Legal Officer

- 3.1 The Committee has been constituted by the Council to perform the role of administering authority to manage the Fund and as such has legal authority to make the decisions sought by the recommendations. Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

List of appendices:

Appendix 1 - Business Plan Update

Business Plan Update

Month	Action Scheduled	By	Actual Activity
Jan 20	Fund Manager Meetings:		
	• Schroders	Officers	Meeting held with Schroders on 7 th January 2020
	Meet the Manager: Baillie Gifford (BG)	Officers	Session with LCIV and BG attended on 16 th January 2020
	Tender for Actuary and Investment Advisor	Officers	Invitation to tender issued
Feb 20	IAS 19 Data Collection (LBBD)	Officers	Submitted to Hymans Robertson
	Fund Manager Meetings:		
	• Equities: Kempen	Officers	Meeting held with Kempen on 5 th February 2020
	• Equities: UBS	Officers	Meeting held with UBS on 27 th February 2020
	Tender for Actuary and Investment Advisor	Officers	Interviews held on 24 th and 26 th February 2020
Mar 20	Fund Manager Meetings:		
	• Equities: Aberdeen Standard	Officers	Meeting held with Aberdeen Standard on 3 rd March 2020
	Quarterly Pension Committee Meeting	All	To be held on 11 th March 2020
	Review and update of 2020/21 Business Plan	Officers	Business Plan to be agreed in June 2020 Pensions Committee
	Review of Risk Register	Officers	To be completed as part of the Business Plan
	Appointment of new Investment Advisor and Actuary	Officers	Contract to commence on 1 st April 2020 and 1 st July 2020 respectively
Apr 20	IAS 19 Results	Officers	To be included in Council's accounts
	Closure of Accounts	Officers	
	Strategic Asset Allocation Review	Investment Advisor	
May 20	Draft Statement of Accounts to June Committee	Officers	Draft to be included in June Committee Papers
	Fund Manager Meetings:		
	Equities: BlackRock	Officers	
Jun 20	Quarterly Pension Committee Meeting	All	To be held on 10 th June 2020
	Business Plan to be agreed in June Committee	Officers	

	Cash Flow Report to June Committee	Officers	
--	------------------------------------	----------	--

PENSIONS COMMITTEE

11 March 2020

Title: Annual Allowance Scheme Pay Policy	
Report of the Chief Operating Officer	
Open Report	For Decision
Wards Affected: None	Key Decision: No
Report Author: Justine Spring, Pensions Manager	Contact Details: Tel: 020 8227 2607 E-mail: Justine.Spring@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary	
<p>This report outlines the Annual Allowance tax charge policy which the London Borough of Barking and Dagenham Pension Fund will adapt. There are two types of Scheme Pays: Mandatory and Voluntary. Members have a right to Mandatory Pay Schemes from the LBBD Pension Fund when certain criteria are met. If the Mandatory Scheme Pay criteria is not met, a member can ask the scheme to allow a Voluntary Scheme Pays election.</p>	
Recommendation(s)	
<p>Members are asked to agree the funds policy to allow for a Voluntary Scheme Pays arrangement when a member is not entitled to Mandatory Scheme pays.</p>	

1. Introduction and Background

- 1.1 This report outlines the Annual Allowance tax charge policy which the London Borough of Barking and Dagenham Pension Fund will adapt. The annual allowance tax is a charge which a member must pay when the annual allowance has been exceeded in a tax year. The Pension Scheme is required to pay this charge for members if a certain criterion is met in return for a reduced benefit. If the criteria are not fully met, the fund may still pay the tax charge for the member under a voluntary scheme pays arrangement.

2. Mandatory Scheme Pays

- 2.1 Where a member has a tax charge as a result of breaching the Annual Allowance, they have a right to Mandatory Scheme Pays from the LBBB Pension Fund when all the following criteria are met:
- The member's Annual Allowance tax charge exceeds £2,000.
 - The member has a Pension Input Amount within the LGPS in England and Wales exceeding the standard Annual Allowance (currently £40,000).
 - An irrevocable election for Mandatory Scheme Pays is made by 31 July in the year following that in which the tax charge arose (i.e. for a tax charge arising from the 2019/20 year the mandatory Scheme Pays election must be made by 31 July 2021) or before they retire, if earlier.
 - The member's full retirement benefits from the Fund are not yet in payment.
- 2.2 Although the LGPS is administered by 89 funds across England and Wales, it is considered one scheme by HMRC and therefore, when assessing pension input in the LGPS, members must take into account ALL benefits they hold in different funds in the LGPS across England and Wales. The LGPS in Scotland, and the LGPS in Northern Ireland, are considered separate schemes by HMRC.
- 2.3 Where a member meets all of the above criteria the LBBB Pension Fund must pay the tax to HMRC on the member's behalf when requested and must notify the member of the resulting reduction to their benefits. The Fund is not allowed to levy an administration charge for Mandatory Scheme Pays elections.
- 2.4 A member does not need to ask the Fund to pay the full tax charge – the member can request that a lower amount is covered by Mandatory Scheme Pays and would have to make their own arrangements to pay the remaining tax charge to HMRC.
- 2.5 For Mandatory Scheme Pays, the member must indicate to HMRC that they will be using Mandatory Scheme Pays on their self-assessment tax return by 31 January in the year following that in which the tax charge arose, but the election to the Fund does not have to be made until 31 July, six months later, and the Fund then has until the following 14 February to pay the tax.

3. Voluntary Scheme Pays

- 3.1 The list below shows some potential situations in which a member may have incurred a tax charge but does not have an entitlement to Mandatory Scheme Pays. In these situations, the member can ask the scheme to allow a Voluntary Scheme Pays election, but the scheme does not have to agree. This list is not intended to be exhaustive:
- The member is subject to the Tapered Annual Allowance and their Pension Input Amount in the LGPS exceeds their Tapered Annual Allowance but does not exceed the Standard Annual Allowance (See example below).

- The member met all the other criteria for a Mandatory Scheme Pays election but did not make the election by the 31 July deadline.
- The member has not exceeded the Annual Allowance based on their pension benefits in the LGPS in England and Wales, but in aggregate across all pension arrangements they have exceeded the Annual Allowance and the member's total tax charge when taking input from other arrangements into account is more than £2,000.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but also has a tax charge relating to input in a separate pension arrangement and wants to use Voluntary Scheme Pays from the Fund to cover this as well.
- The member's tax charge is less than £2,000. There is no time limit set in the legislation for an election for Voluntary Scheme Pays (if permitted), but members should note that if the tax is not paid by 31 January in the year following the year in which the tax charge arises (i.e. 31 January 2020 for a tax charge arising in the 2018/19 year) interest and late payment penalties will be due. Interest and late payment penalties do not apply for tax charges that are settled by Mandatory Scheme Pays, assuming the member provides the appropriate notifications to HMRC via self-assessment or otherwise, because in this circumstance the member and the Administering Authority are jointly and severally liable for the payment of the tax charge, whereas the member remains solely liable for any tax due that is not covered by Mandatory Scheme Pays.

4. Tapered Annual Allowance Examples

- 4.1 Member's Pension Input Amount is £60,000 and they are subject to a Tapered Annual Allowance of £10,000. The tax charge will be £20,000 assuming they are a 40% taxpayer and have no carry-forward available. Mandatory Scheme Pays only applies to £8,000 of that tax charge (in respect of the input in excess of £40,000). The remaining £12,000 of the tax charge would need to be settled by the member directly with HMRC, unless a Voluntary Scheme Pays arrangement is agreed with the Fund.
- 4.2 Member's pension input is £39,000 and they are subject to a Tapered Annual Allowance of £10,000. Their tax charge will be £11,600 assuming they are a 40% taxpayer and have no carry-forward available. This does not qualify for Mandatory Scheme Pays as the pension input is less than the Standard Annual Allowance of £40,000, so would need to be settled by the member directly with HMRC, unless a Voluntary Scheme Pays arrangement is agreed with the Fund.

It should be noted that it is the member's responsibility to notify the Fund if they are subject to a Tapered Annual Allowance and the amount of tax due. The Fund cannot calculate this as it does not have details of total taxable income.

5. LBBP Pension Fund's Policy

5.1 The Fund will accept applications for Voluntary Scheme Pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance and has a tax charge of more than £2,000 relating to input in the LBBP Pension Fund (or associated Prudential AVC Fund), and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2020 for input in the 2019/20 year).
- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31 July deadline due to an administrative error or omission by LBBP Council (e.g. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within two months of the member receiving notification of their pension input.

5.2 The Fund will not accept applications for Voluntary Scheme Pays in the following circumstances:

- The member's tax charge relating to pension input in the LGPS in England and Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000, and the irrevocable election is received by 31 December following the end of the tax year in which the input rises (i.e. 31 December 2020 for input in the 2019/20 year). It is the member's responsibility to notify the Fund at this time of the amount of tax due. The Fund cannot calculate this as it does not have details of the input from the member's other arrangements.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2020 for input in the 2019/20 year). It is the member's responsibility to notify the Fund at this time of the amount of tax due. The Fund cannot calculate this as it does not have details of the input from the member's other arrangements.
- The member's total tax charge, including when taking input from other arrangements into account is less than £2,000. LBBP Council has not set a minimum level of tax charge that the member must face before they can make an application but will consider each such request on its merits.

- Where the member in question did not meet the 31 July deadline for applying for Mandatory Scheme Pays, and this failure to meet the deadline was not due to any administrative error or omission by LBBB Council.

5.3 A Voluntary Scheme Pays request in any other scenario will be considered on its merits. Following the acceptance of an election for Voluntary Scheme Pays, the member's benefits will be reduced by an amount corresponding to the tax charge paid by the Fund, using the guidance issued by the Government Actuary's Department.

6. Members approaching retirement

6.1 There are situations where a member may breach the Annual Allowance in the Pension Input Period in which they retire, even if they retire relatively near the start of the tax year. This could be, for example, where there has been an ill health enhancement (and the member did not meet the severe ill-health condition under S229(4) of the Finance Act 2004) or a large pay increase, bonus or service enhancement before or at retirement.

6.2 Where a member breaches the Annual Allowance in the tax year in which they receive their final retirement benefits, Scheme Pays can only be used if the election is made and processed before the benefits are put into payment (or "crystallise"). Otherwise members will have to pay the tax charge directly. Members in this situation may choose to pay the tax charge using any lump sum payable on retirement.

6.3 The Fund will issue an individual pension savings statement to those active members who become a pensioner member during the Pension Input Period and who have exceeded the standard Annual Allowance. This will be provided when the retirement benefits are notified rather than under the usual timescales. This gives the member the time to determine whether a Mandatory Scheme Pays option applies and/or whether they wish to make an election for Mandatory or Voluntary Scheme Pays. If the member wishes to use Scheme Pays they should contact LBBB Council well before the retirement date so that the relevant reduction can be calculated and applied before the benefits are put into payment.

6.4 It is the member's responsibility to notify the Fund at this time if they are subject to a Tapered Annual Allowance and the amount of tax due. The Fund cannot calculate this as it does not have details of total taxable income.

7. Legal Implications

Implications completed by Dr Paul Feild Senior Governance Solicitor

7.1 There is a limit on how much tax relief a person can receive set by the Finance Act 2004 as amended by the Finance Act 2011. This is set by an annual allowance on their pension contribution. The allowance has been varied from time to time. The current figure is £40,000. This is calculated across all the

pension schemes to which a person is a member and includes any Additional Voluntary Contributions.

- 7.2 Where a scheme member has an annual allowance charge and certain defined conditions are met, they can give their scheme administrator notice that they want the pension scheme to pay some or all of their annual allowance charge liability on their behalf to HMRC in return for an appropriate reduction in their pension benefit.
- 7.3 As pointed out in the body of this report, the Pension Scheme is required to pay this charge for members if a certain criterion is met in return for a reduced benefit see paragraph 2.1 supra. If the criteria are not fully met, the fund may still pay the tax charge for the member under a voluntary scheme pays arrangement see paragraph 31 supra.

8. Other Implications

- 8.1 There are no other immediate implications arising from this report.

Background Papers Used in the Preparation of the Report:

- The Finance Act 2004 & 2011
- Explanatory Memorandum to the Registered Pension Schemes (Notice of Joint Liability for the Annual Allowance Charge) Regulations 2011 No 1793 Notes)
- HMRC Pensions Tax Manual

List of appendices: None

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank