



Meeting: **Local Pension Board**

Date/Time: **Monday, 2 December 2019 at 9.30 am**

Location: **Guthlaxton Committee Room, County Hall, Glenfield.**

Contact: **Miss C Tuohy (0116 305 5483).**

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AGENDA

<u>Item</u>	<u>Report by</u>	
1. Election of Chairman.		
2. Election of Vice-Chair.		
3. Minutes of the meeting held on 16 September 2019.		(Pages 3 - 8)
4. Question Time.		
5. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
6. Declarations of interest in respect of items on the agenda.		
7. Pension Fund Administration Report - July to September 2019 Quarter.	Director of Corporate Resources	(Pages 9 - 26)
8. Pension Fund Valuation.	Director of Corporate Resources	(Pages 27 - 98)
9. Investment Strategy Statement Update.	Director of Corporate Resources	(Pages 99 - 114)



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|-----|---|---------------------------------------|----------------------|
| 10. | The Pensions Regulator 'Deep Dive' Findings. | Director of
Corporate
Resources | (Pages 115 -
148) |
| 11. | Local Government Pension Scheme - Transfer
of Pension Rights. | Director of
Corporate
Resources | (Pages 149 -
156) |
| 12. | Risk Management and Internal Controls. | Director of
Corporate
Resources | (Pages 157 -
168) |
| 13. | Date of Next Meeting. | | |
| | <i>The next meeting of the Board is scheduled to take place on 16
March 2020 at 9.30am.</i> | | |
| 14. | Any other items which the Chairman has
decided to take as urgent. | | |

TO:

Employer representatives

Mrs R. Page CC
Cllr E. Pantling
Mr. R. Shepherd CC

Employee representatives

Ms. C. Fairchild
Ms. R. Gilbert
Mrs. D. Haller



Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Monday, 16 September 2019.

PRESENT

Mrs. R. Page (in the Chair)

Ms. C. Fairchild
Ms. D. Haller
Mr. R. Shepherd CC

Cllr. Elaine Pantling
Ms. D. Stobbs

13. Minutes.

The minutes of the meeting held on 17 June 2019 were taken as read, confirmed and signed.

14. Chairman's Announcements.

The Chairman reported with great sadness the death of County Councillor and Vice-Chairman of the Council, Mr David Jennings CC who had died on 30 August 2019 aged 72. David had served on the Council since his election in 1992 and had been Chairman of the Local Pension board since its inception.

Members joined the Chairman in standing in silent tribute to the memory of Mr David Jennings.

15. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

16. Urgent Items.

There were no items for consideration.

17. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

18. Local Pension Board Terms of Reference

The Board considered a report of the Director of Corporate Resources on the revised Local Pension Board Terms of Reference. A copy of the report marked 'Agenda Item 5', is filed with these minutes.

The Director said that the Local Pension Board had been established on 1 April 2015. Following its four years of operation it was agreed that the Terms of Reference (ToR) would be reviewed. The review considered the Scheme Advisory Board's model terms of reference, Government legislation and other relevant guidance. Board members were also consulted as part of the process.

Arising from the discussion the following points were noted:-

- i) The revised ToR included the requirement for the Board to review LGPS Central pooling arrangements/developments annually as part of the Fund's annual report. Members were assured that this did not preclude the Board from reviewing the matter more frequently if necessary .
- ii) Whilst the ToR made it clear that the Board was not a committee of the Administering Authority (Leicestershire County Council), it was expected to comply with the procedure rules, as set out in the Leicestershire County Council Constitution, including the publication of agenda papers and minutes.
- iii) It would be expected that the Chair of the Local Pension Board consult with the Scheme Manager before convening an urgent meeting to ensure the Chair was advised appropriately and any necessary arrangements were made.
- iv) Employee representatives could only be selected by a vote of scheme members at the Annual General Meeting (AGM) of the Leicestershire Pensions Fund. It was the Administering Authority and the City Council's responsibility to appoint Employer Representative's using its own due process.
- v) 'Reference to 'Other advisors' approved by the Scheme Manager' referred to external advisors who would be invited for a specific report under consideration or to provide training to the Board.
- vi) The Pension Fund would meet any reasonable expenses, such as training, of the Board and meet any travel costs as per Leicestershire County Council's Members' Allowance Scheme.

RESOLVED:

That the revised Terms of Reference be approved.

19. Pension Fund Annual Report and Accounts 2018/19

The Board received a report of the Director of Corporate Resources, the purpose of which was to present the Annual Report and Accounts of the Pension Fund 2018/19 for comment. A copy of the report is filed with these minutes, marked 'Agenda Item 6'.

The Board welcomed the report and were pleased that it presented the Fund as being in a healthy position.

Arising from the report members noted the following:

- i) The Fund had started to see an increase in pensioners and a decrease in preserved members due to the change in Government legislation that allowed benefits to be claimed from the age of 55.

- ii) There were over 4,000 members with no entitlement to their benefits as they had not met the requirement of having paid contributions into the fund for a minimum of two years. These members were eligible to transfer their benefits to an alternative pension arrangement or to a refund of their contributions.
- iii) LGPS Central had appointed three external global equities managers for its Global Active Equities Fund, this would help mitigate the risk of one of the managers performance being poorer than expected.
- iv) LGPS Central was expected to save six million pounds over the first 15 years. The realisation of savings would take this amount of time due to the initial cost of establishing the pool, product development and transitional costs.
- v) Due to the performance of assets often fluctuating it was more accurate to look at the performance of the Targeted Return Managers over the past three years, rather than one year.
- vi) Hedging arrangements were in place to mitigate some of the currency risk arising from the continued uncertainty over the UK's departure from the EU.
- vii) The Local Pension Committee reviewed the Fund's investment policy yearly and would take into account the Government's increasing push for passive investment.
- viii) As part of the Fund's valuation, officers were working with employers to set contribution requirements with the aim of reducing the time expected to achieve a fully funded position.

RESOLEVD:

That the draft Pension Fund Annual Report be welcomed, and comments submitted as part of the report to the Local Pension Committee on 8 November 2019.

20. LGPS Central Governance

The Board received a report of the Director of Corporate Resources, the purpose of which was to present the governance arrangements of LGPS Central. A copy of the report is filed with these minutes, marked 'Agenda Item 7'.

RESOLVED:

That the report be noted.

21. Pension Fund Administration Report - April to June 2019 Quarter

The Board considered a report of the Director of Corporate Resources concerning the relevant issues in relation to the administration of Fund benefits and performance against its key indicators. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from the discussion the following points were noted:-

- i) The reduction in performance of 'pensioners' and 'death benefits paid within ten working days' had been expected due to staff resource having been reallocated to year-end work that was time critical.
- ii) Members were pleased that the section had reconciled 79,927 Guaranteed Minimum Pension (GMP) cases and that there were only 122 that the Council was unable to settle.
- iii) Since the Altair Member Self – Service system was implemented in January, over 20,000 members had used the system. Board members would have an opportunity to see how the system worked at a future training session.
- iv) The Scheme Manager was pleased to report that since the Board's last meeting, progress had been made in the completion of the legal admission agreement and bonds needed for the successful transfer of undertakings protection of employment of several employers. It was hoped a legal agreement would be signed by 20th September for the Avanti/Govindas TUPE. The Board would receive the details of all outstanding employers without bonds in place at a future meeting.
- v) All academies paid through East Midlands Shared Service had adopted the monthly posting arrangements, whilst Leicester City Council and De Montfort University were working positively with the Pensions Section towards implementation.

Whilst the implementation of IConnect remains on a phased roll out, Members were concerned that there remained some employers who were not fully engaging with the implementation of monthly posting. This was despite the Pension Section providing technical guides and training sessions. It was noted that those choosing not to implement the new arrangements were not fulfilling their contractual agreement as part of the Fund's Administration and Communication Strategy.

RESOLVED:

That the Scheme Manager be requested to:

- a) Report the breach by Avanti and Govindas to the Pensions Regulator unless a signed legal agreement was received by 20th September 2019.
- b) Write twice to Fund employers with outstanding TUPE cases before reporting the employer to the Pension's Regulator.
- c) Take appropriate action to resolve matters to increase, or reintroduce, the required bond's where Fund employers have allowed it to lapse.
- d) Write to Fund employers who had failed to engage with the implementation of monthly posting by the 31 March 2020, and update the Board at a future meeting.

22. Pension Fund Administration - Current Developments

The Board considered a report of the Director of Corporate Resources the purpose of which was to report on relevant issues relating to the administration of the Leicestershire Pension Fund. A copy of the report is filed with these minutes marked 'Agenda Item 9'.

Members noted that the effect of the McCloud age discrimination ruling on the Fund was currently unknown. The Fund would continue to work with the Actuary to consider the financial impact.

The Fund had responded to the Scheme Advisory Board's (SAB) Good Governance Consultation, its view had aligned with the SAB's favoured option of 'Model 2' that would ensure greater ring-fencing of the LGPS within the existing structures. It was expected that any implementation would be preceded by further consultation which the Board would continue to be updated on.

RESOLVED:

That the Board note the report.

23. Consultation - Local Valuation Cycle and Management of Employer Risk

The Board considered a report of the Director of Corporate Resources the purpose of which was to provide members with the Fund's response to Government's consultation on changes to the local valuation cycle and management of employer risk. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Members welcomed the Fund's response to Government's consultation on the proposal to allow further education, sixth form college and higher education corporations to be able to stop new employees having access to the LGPS.

The Fund was also aware that the Government had indicated it would not rescue failed employers, which meant any pension liabilities would be the responsibility of the Fund. This risk was being considered as part of the actuarial valuation.

RESOLVED:

That the Board note the report.

24. Risk Management and Internal Controls.

The Director of Corporate Resources presented a report, the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund. A copy of the report is filed with these minutes, marked 'Agenda Item 11'.

A new risk that related to the McCloud age discrimination case had been added to the risk register. The concern was national, and it was yet unknown what impact the case would have on the Fund.

RESOLVED:

That the Board note the revised risk register of the Pension Fund.

25. Pension Fund Training Policy

The Board received a report of the Director of Corporate Resources on the draft Pension Fund Training Policy. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

Members supported the development of a training policy for the Board and Local Pension Committee members which would help ensure that good governance of the Fund was maintained.

The Board would continue to receive training on a rolling basis and the training knowledge forms which members were asked to complete would help form the future training programme. Officers would consider upcoming agenda items to ensure members had adequate understanding of forthcoming issues.

RESOLVED:

That the Board note the revised training policy.

26. Dates of Future Meetings

The Board noted that the next Annual General Meeting of the Leicestershire Pension Fund would take place on the 18th November 2019 at 12.30pm at the Council Chamber, County Hall and that Board members were welcome to attend.

RESOLVED:

That future meetings of the Local Pension Board will be held at 9.30am on the following dates:-

2 December 2019
16 March 2020
29 June 2020
28 September 2020
7 December 2020

9.30 - 11.50 am
16 September 2019

CHAIRMAN



LOCAL PENSION BOARD

2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**PENSION FUND ADMINISTRATION REPORT – JULY TO SEPTEMBER 2019
QUARTER**

Purpose of the Report

1. The purpose of this report is to inform the Board of relevant issues in the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 98,000 members.

Performance Indicators

3. Attached as an appendix to this report are the performance indicators for the Pensions Section, which form part of the Section's Service Plan and have been agreed by the Director of Corporate Resources. These indicators are split into two broad categories – how quickly processes are carried out and how customers feel they have been kept informed and treated by staff.

Performance of Pensions Section

4. The results for the July to September 2019 quarter are detailed within Appendix A. Customer satisfaction remains generally positive and there have been improvements in the business processes.

Administration

5. General Workloads

The tables show the position in five key work areas, July to September 2019.

July 2019

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	225	920	900
Aggregations	69	1128	450
Interfunds in	8	218	200
Retirements	531	683	500
Deaths	80	108	100

August 2019

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	127	988	950
Aggregations	151	999	450
Interfunds in	30	188	200
Retirements	415	698	600
Deaths	75	91	100

September 2019

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	89	1172	1000
Aggregations	175	875	800
Interfunds in	43	186	200
Retirements	452	630	500
Deaths	70	114	100

The main point to note;

During valuation, resource was redirected from main work areas to valuation. Valuation data was completed in August and resource has since moved back. Aggregations are reducing well, but the 2019/20 aggregations will be run shortly so this area will increase again shortly.

The Pension Section has commenced a recruitment exercise for four temporary Pension Assistants to help deal with the increasing volumes of work.

6. Guaranteed Minimum Pension (GMP) reconciliation

The reconciliation is now complete and HMRC will shortly provide the Leicestershire Pension Fund with final GMP figures for all members affected by the GMP reconciliation. This effectively closes the GMP/CEP reconciliation exercise for the Fund.

The Pension Section is now working through the results on the remaining 1,357 GMP pensioner, deferred and active cases to ensure these are updated on the pension administration system. This will allow accurate payment of future Pensions Increase to these members.

A further national exercise is due on GMPs, known as GMP equalisation. This is a process to equalise GMPs for both men and women following the High Court ruling on the 26 October 2018, effectively neutralising previously differing retirement ages for men and women.

7. Member Self-Service (MSS)

Following the move to Heywood's Member Self-Service (MSS) system in January 2019 there are now 22,193 members live on the system. The system provides an instant picture of the member's pension account as it links directly to their pension record.

There is an improved benefit projector for active members who can now produce their own pension estimates for deferment, retirement and redundancy.

Deferred members can also access a projector which can allow them to view the value of their pension, should they wish to claim it from 55 onwards.

Pensioners can access a fully HMRC compatible, printable P60 and their pension payslips each month.

There is potential for the system to be used for secure document exchange in the future, which could improve the speed of certain processes, e.g. retirements. It also adds greater security on the transfer of documents.

As requested at the last Pension Board meeting, a presentation of the Heywood MSS system will follow the conclusion of this meeting.

Governance Items

8. Year End

Over 61,000 members annual benefit statements were produced and sent by the statutory deadline of the 31 August 2019.

490 active members have not received their statements because their employer did not resolve their year-end pay queries in time for the deadline. These cases are not deemed to be material breaches as the members received statements last year, they can run their own estimates via the on-line member self-service system and the Pension Section will produce an individual estimate for any of these members if required.

The remaining 490 cases should be completed by the end of 2019.

All the known annual allowance pension taxation statements were calculated and produced by the 6 October 2019 statutory deadline.

9. Internal Dispute Resolution Procedure (IDRP)

If a scheme member has a complaint that cannot be resolved informally, they can take this through the formal complaints process, the internal dispute resolution procedure (IDRP). There are two stages to IDRP, and if the complaint remains unresolved the scheme member can pursue it with the Pension Ombudsman who will ultimately determine the decision.

In the period July to September 2019 there were three new IDRP stage 2 appeals.

In case one; The scheme member has a complaint against their previous employer's decision on the pensionable pay used in the calculation of benefits. The case is at the Stage 2 review.

In case two; The scheme member has complained about the ill health tier they were granted by their previous employer. The case is at the Stage 2 review.

In case three; The scheme member has complained that their previous employer did not grant them ill health retirement. The employer decision has been upheld at Stage 2, so the previous member may decide to proceed to the Ombudsman.

10. Implementation of monthly posting

The Pension Section continues a phased implementation of monthly postings as part of the Leicestershire Fund's data improvement plan.

The position as at 13 November 2019 is attached in Appendix B.

Since the 16 September 2019 Board report, Academies paid through East Midlands Shared Services and the Chief Constable and the Office of the Police and Crime Commissioner have gone live. This has increased the number of Fund employers monthly posting from 34 to 103. This has increased the active members who are now being monthly posted from 13,350 to 20,900. This is major improvement and concludes a large area of the project.

The next large employers pending go live are;

- Leicester City Council (8,600 members)
- De Montfort University (1,650 members):

The Pension Section has received very good initial reports from both City and DMU. Both require only minor changes and the Pension Section has provided positive feedback. The Section is now waiting for both employers to provide an amended report prior to go live with.

The Pension Section anticipates both employers will go live in early 2020.

11. Breaches Log

The Pension Manager retains the breaches log. Each breach is reviewed to decide if the breach is material or not. Only material breaches are reported to The Pensions Regulator. There are currently no material breaches. The November 2019 breaches log is attached as Appendix C

12. Reducing Employer Risk and Outstanding Transfer of Undertakings Protection of Employment (TUPE)

As part of the valuation the Pension Manager has been assessing the ongoing employer risk to the Fund.

The Pension Fund usually required a full bond to be in place for TUPE transfers that took place prior to 1 April 2019. This allows the Pension Fund to

claim the bond value from the bond provider should the contractor fail to make payment of their pension costs to the Pension Fund.

Since the 1 April 2019 with the introduction of pass-through, the need for a full bond has been negated because much of the pension liability moves back to the outsourcing employer (the letting employer) at the end of the contract. This has significantly reduced the bond value needed by the Fund as security, as there is only now a requirement for a capital cost bond to cover the pension strain for the members age 55 or over, if they are made redundant and entitled to immediate payment of their pension. In some pass-through cases no bond is required.

Officers monitor the bond values and the contract dates, working closely with the employers to maintain the required security, but unfortunately some employers do not maintain the bonds and allow these to lapse. Officers continue to work hard to reintroduce bonds as part of the overall employer risk scoring for the valuation and to protect the Fund.

The Fund employers are regularly reminded to contact the Pensions Manager as quickly as possible if they are considering TUPE transfers out. They are made aware all pension issues should be resolved before the staff transfer.

As at the 19 November 2019 there are seven cases where bonds are outstanding and five cases where the admission agreement is outstanding.

As requested by the Local Pension Board the tables below show the outstanding cases.

Bonds Outstanding

Pre April 2019 or pass-through	Letting employer	Contractor	Full or Capital Cost Bond	Bond value and provisional end date	Comments
Pre April 2019	County Council	Rushcliffe Care	Capital Cost	£27,000 – 31/3/2021	At the initial stages (from valuation exercise)
Pre April 2019	Harborough DC	Seven Locks (waterloo Group) - CAB	Capital Cost	£87,200 – 31/3/2020	Bond ready for signature
Pre April 2019	Blaby DC	East Midlands Housing (Three Oaks)	Capital Cost	£200,000 – 31/3/2023	At the initial stages (from valuation exercise)

Pre April 2019	City Council	Aspens (Crown Hills)	Full	£160,000 – 31/12/2023	Bond ready for signature
Pre April 2019	Various	Chartwells	Full	£97,000 – tbc	At the initial stages (from valuation exercise)
Pre April 2019	Mowbray Education Trust	Caterlink	Full	£59,600 – 31/7/2021	Bond ready for signature
Pass-through	WQE and Regent College	Caterlink	Capital Cost	£13,000 – 31/7/2023	Bond ready for signature

Admission Agreement Outstanding (some also have bonds)

Pre April 2019 or pass-through	Letting employer	Contractor	Full or Capital Cost Bond	Bond value and end date	Comments
Pass-through	Beacon Academy	Cleantec	Capital Cost	£33,000 – 25/8/2020	Admission agreement and bond outstanding since August 2019
Pass-through	Beacon Academy	Mellors catering	Capital Cost	£22,000 – 25/8/2020	Admission agreement and bond outstanding since August 2019
Pass-through	South Leicester College	Churchill	n/a	n/a	Admission agreement outstanding since August 2019

Pass-through	Melton Vale (NOVA)	Aspens	n/a	n/a	Admission agreement outstanding since August 2019
Pass-through	City Council	Guardian	Capital Cost	£40,000 – 31/10/2022	Admission agreement and bond outstanding since 1 November 2019

Officers are in regular contact with the employers to ensure all outstanding agreements and bonds are completed as quickly as possible. This continues to be regularly monitored.

Recommendation

13. It is recommended the Board notes all areas of the report.

Equality and Human Rights Implications

None specific

Appendix

Appendix A – Key Performance Indicators July to September 2019

Appendix B – Monthly posting position as at November 2019

Appendix C – The Fund's Breaches Log as at November 2019

Officers to Contact

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Pensions Manager
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Declan Keegan
Assistant Director of Strategic Finance and Property
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APPENDIX A

Quarter - July 2019 to Sept 2019									
Business Process Perspective	Target	This Quarter	Previous quarter	Customer Perspective - Feedback	Target	This Quarter	Previous Quarter		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	95%	▲	95%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲	100%
Pension payments made within 10 working days of receiving election	95%	89%	▼	87%	Experience of dealing with Section - rated at least good or excellent	95%	90%	▼	90%
Death benefits/payments sent to dependant within 10 working days of notification	90%	98%	▲	87%	Establish members thoughts on the amount of info provided - rated as about right	92%	91%	▶	94%
				Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲	100%	
Good or better than target	▲			Email response - understandable	95%	90%	▼	90%	
Close to target	▶			Email response - content detail	92%	89%	▶	92%	
Below target	▼			Email response - timeliness	92%	97%	▲	94%	

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APPENDIX B - Position as at Nov 2019

EMPLOYER	Category of Employer	Live on iConnect?	Priority	Live Date	Work Underway?	Current Status	Provider	Comments
OAK MAT	Medium	Yes	1	Apr-18	Yes	Live	Dataplan	Passed over to employer
Avanti School Trust	Medium	Yes	1	Apr-18	Yes	Live	Dataplan	Passed over to employer
MOWBRAY EDUCATIONAL TRUST	Medium	Yes	1	Apr-18	Yes	Live	Dataplan	Passed over to employer
David Ross Education Trust	Medium	Yes	1	Apr-18	Yes	Live	Dataplan	Passed over to employer
Long Field Academy	Medium	Yes	1	Mar-19	Yes	Live	Dataplan	Joined Dataplan payroll provider March 19 >>> Er is now live
Learn Academy Trust	Medium	Yes	1	Apr-19	Yes	Live	Dataplan	Joined Dataplan payroll provider April 19 >>> Er is now live
The Mead Educational Trust	Medium	Yes	1	Apr-19	Yes	Live	Dataplan	Joined Dataplan payroll provider April 19 >>> Er is now live
ESPO	EMSS	Yes	1	Apr-18	Yes	Live	EMSS	Passed over to employer
Leics Firefighters	Fire	Yes	1	Apr-18	Yes	Live	EMSS	Passed over to employer
Blaby DC	Large	Yes	1	Apr-18	Yes	Live	District	Passed over to employer
Charnwood BC	Large	Yes	1	Apr-18	Yes	Live	District	Passed over to employer
Lough University	Large	Yes	1	Apr-18	Yes	Live	District	Passed over to employer
Loughborough College	Large	Yes	1	Apr-18	Yes	Live	District	Passed over to employer
Scraptoft PC	Small	Yes	1	Apr-18	Yes	Live	District	Passed over to employer
SLM Everyone active (NWLDC Leisure)	Small	No	1		Yes	With Employer	District	New employer - gone live>>> Handed over to employer New employer passthrough pooling >>> Approved, joined May 19. Draft report returned with feedback, await amended report.
AXIS Europe (Melton BC)	Small	No	1		Yes	With Employer	District	New employer start date backdated to 01/10/18. Completed in June 19 >>> Approved - YE and reports received. Feedback with Er.
Bellrock (Tudor Grange)	Small	No	1		Yes	With Employer	District	New employer tbc. Case not completed - admission outstanding >>> Approved - YE and April report received, requested May to July reports.
Brooksbys Melton College	Large	No	1		Yes	With Employer	District	Merge to SMB Group Jan 2020, info with employer, expect draft report in 2020.
Stephenson College	Large	No	1		Yes	With Employer	District	Merge to SMB Group Jan 2020, info with employer, expect draft report in 2020.
The Priory AT Belvoir Academy	MAT	No	1		Yes	With Employer	District	Er is looking to bring payroll in-house on 01/10/19, info with Er, await Oct report.
Ridgecrest (Tudor Grange)	Small	No	1		Yes	With employer	District	New employer tbc. Case not completed - admission outstanding >>> Approved, await first draft report
SLM (Oadby and Wig)	Small	No	1					New employer New employer joined in April 19. No i-Connect at this time as Aspens have other Ers, to be done as one at a later date.
Aspens (Lutterworth AT)	Small	No	1					New employer tbc. Case not completed - admission outstanding (with employer)
Govindas (Avanti Schools)	Small	No	1					
Churchill Contract Services	Small	No	1		Yes	With employer	District	New ER, contacted regarding i-Connect
Aspens (Mowbray Ed Trust)	Small	No	1					
Caterlink (Mead ET Primaries)	Small	No	1					
Caterlink (Mead ET Sec)	Small	No	1					
CSE (Tudor Grange)	Small	No	1					
Leicestershire CC	County	Yes	2	Apr-18	Yes	Live	EMSS	Agreed the Pension Section will process, to be re-assessed after further experience.
North West Leics D C	Large	Yes	2	Apr-18	Yes	Live	District	Passed over to employer
Leicester City Council	City	No	2		Yes	Employer working on City	City	i-connect report is with City to provide an amended report, approaching the stage to go live in the near future
Derbys Firefighters	Fire	No	2		No		Derbys	
Notts Firefighters	Fire	No	2		No		Notts	
Harborough DC	City	No	2				City	
Broughton Astley PC	City	No	2				City	
Welland Park CC	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Lutterworth High School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
The Kibworth School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
South Wigston High School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Forest Way School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
The Market Bosworth School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Stafford Leys Comm Primary	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Dorothy Goodman School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
The Vines Academy Trust	Medium	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Gartree High School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Ivanhoe College	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Ibstock Community College	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
King Edward VII S&S College	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Ashby School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Ashby Hill Top Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Castle Donington College	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Queniborough CofE Primary Sch	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Birkett House School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Church Hill CofE Junior School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
St Michael & All Angels CofE	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Barwell CofE Academy	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Bottesford CofE Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Thrusington CofE Primary Sch	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Holywell Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Mountfields Lodge School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Measham CofE Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
St.Peters CofE Primary Academy	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Outwoods Edge Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Stonebow Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Cobden Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Asfordby Hill Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Mercenfeld Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
South Charnwood High School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
The Pastures Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Battling Brook Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Frisby CE Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Thringstone Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Brocks Hill Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Rothley CofE Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Hastings High School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Old Dalby CofE Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Stanton under Bardon Primary	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Hall Orchard Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Kirby Muxloe Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Robert Bakewell Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Falcon Primary School	EMSS	Yes	3	Apr-19	Yes	Live	EMSS / City	EMSS part went Live April 19.
Loughborough CofE Primary	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Townlands CofE Primary Academy	EMSS	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Bradgate Education Partnership	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Symphony Learning Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
DISCOVERY SCHOOLS MAT	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
St Thomas Aquinas CMAT	MAT	Partly	3	Apr-19	Yes	Live	EMSS / Distr	EMSS part went Live April 19.
Scholars Academy Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Success Academy Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Apollo Partnership Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Odyssey Education Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
OWLS MAT	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Inspiring Primaries Academy Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
The Learning without Limits AT	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Oval Learning Partnership	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Embrace AT	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.

Attenborough Learning Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Ash Field Academy	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
LIFE Academy Trust	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
Redmoor Academy	Medium	Yes	3	Apr-19	Yes	Live	EMSS	Go Live date April 19.
LIONHEART (BEAUCHAMP) MAT	MAT	Yes	3	Apr-19	Yes	Live	EMSS / Distr	EMSS part went Live April 19.
Herrick Primary School	City	Yes	3	Apr-19	Yes	Live	Judicium	EMSS part went live April 19
Diocese of Leicester AT / LEICS ACADEMIES C	MAT	Yes	3	Apr-19	Yes	Live	EMSS	Moved to SAAF payroll, expected to go live from 01/08/19, await draft report. Diocese Go Live date April 19.
St Mary & St John Rutland	MAT	Yes	3	Jun-19	Yes	Live	EMSS	Went live/joined EMSS Jun-19
East Midland Shared Services	EMSS	Yes	3	Apr-18	Yes	Live	EMSS	Agreed the Pension Section will process, to be re-assessed after further experience.
REGENT COLLEGE	Medium	No	3				District	Regent College left EMSS April 19 to tag onto Wygeston College's in-house payroll
Lady Jane Grey Primary School	Small	No	3				District	Left EMSS for EPM April 19
Rendell Primary School	Small	No	3				District	Left EMSS for Moorepay Sept 18
Wigston Academies Trust	MAT	No	3				EMSS	Under Abington Business Group on Oracle
LEAD ACADEMY MAT	Medium	No	3				District	EPM
Hinckley & Bosw'th BC	Large	Yes	4	Apr-18	Yes	Live	District	Handed over to employer
Countesthorpe Leysland CC	Large	Yes	4	Apr-19	Yes	Live	District	Expected to go live from April 19. Year End to be processed before employer can go live >> Er is now live
Oadby and Wigston BC iConnect	Medium	Yes	4	Apr-18	Yes	Live	EMSS	Passed over to employer
FIRE SERVICE CIVILIANS iConnect	Medium	Yes	4	Apr-18	Yes	Live	EMSS	Passed over to employer
The Chief Constable & The OPCC	Large	Yes	4	Apr-19	Yes	Live	District	ER is now live from April 19.
De Montfort University	Large	No	4				With Employ Employer working on District	i-connect report is with City to provide an amended report, approaching the stage to go live in the near future Previous notes >>> Expected to go live from April 19. Year End to be processed before employer can go live>>> YE processed, i-C queries with Er, high priority Er Expected to go live from April 19. Year End to be processed before employer can go live >> YE processed, i-C with Er, await reply
Grobby Brookvale	Large	No	4		Yes	Employer working on	District	
LEICESTER COLLEGE	Large	No	4		With Employ Spec sent to employee		District	
Melton B C	Medium	No	5				District	
Vol Action Leicester	Medium	No	5				District	
SOUTH LEICS COLLEGE	Medium	No	5				District	
Wygeston Queen Elizabeth I	Medium	No	5				District	
UPPINGHAM COMMUNITY COLLEGE	Medium	No	5				EPM	
GATEWAY 6TH FORM COLLEGE	Medium	No	5				District	
CASTERTON B&EC AT	Medium	No	5				District	
EMH Homes	Medium	No	5				District	
Capita IT City Rushey Mead	Medium	No	5				District	
Capita Services ex Charnwood	Medium	No	5				District	
Limehurst Academy	Medium	No	5				District	
Woodbrook Vale School	Medium	No	5				District	
Rawlins Academy	Medium	No	5				District	
Humphrey Perkins School	Medium	No	5				District	
The Martin High School	Medium	No	5				District	
Wreake Valley Academy	Medium	No	5				District	
Lutterworth Academies Trust	Medium	No	5				District	
Hinckley Academy	Medium	No	5				District	
Brockington College	Strictly Ed	No	5				District	
Queensmead Primary Academy	Medium	No	5				District	
Capita IT City of Leicester	Medium	No	5				District	
Capita IT Judgmeadow CC	Medium	No	5				District	
Quadron Services	Medium	No	5				District	
G4S (Constabulary)	Medium	No	5				G4S	
Turning Point (City Council)	Medium	No	5				District	
Turning Point (County Council)	Medium	No	5				District	
G4S (City Council)	Medium	No	5				G4S	
Rutland CC	Rutland	No	6				District	
EPM - Rutland CC	Rutland/EPM	No	6		With Employ Spec sent to employee	EPM		Employer working on report with macro, a meeting is penciled in for Nov 19. Aim to go live April 2020.
The Rutland & District Schools' Federation	MAT	No	7				District	
Brooke Hill Academy Trust	MAT	No	7				District	
The Blessed Cyprian MAT	MAT	No	7				District	
BEACON ACADEMY MAT	MAT	No	7				District	
St Gilberts of Sempringham	MAT	No	7				District	
The Midland Academies Trust	MAT	No	7				District	
Heighington Millfield Community Academy Tr	MAT	No	7				District	
Nova Ed Trust (Melton Vale)	MAT	No	7				District	
Tudor Grange Academies Trust	MAT	No	7				District	
The Rutland Learning Trust	MAT	No	7				District	
CORPUS CHRISTI MAT	Strictly Ed	No	7				Strictly Ed	
Mountsorrel PC	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
ASHBY WOULDTS TOWN COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
MARKET BOSWORTH PARISH COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Leics Forest East PC	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
GLEN PARVA PARISH COUNCIL	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Melton Learning Hub	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Barwell Parish Council	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
LUTTERWORTH T C	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Enderby Parish Council	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Prospects Services	Small	Yes	8	Apr-19	Yes		District	Passed over to employer (left July 19)
BRAUNSTONE TOWN COUNCIL iConnect	Small	Yes	8	Apr-18	Yes	Live	District	Agreed the Pension Section will process for now.
THURMASTON PARISH COUNCIL iConnect	Small	Yes	8	Apr-18	Yes	Live	District	Agreed the Pension Section will process for now.
COUNTTESTHORPE PC iConnect	Small	Yes	8	Apr-18	Yes	Live	District	Passed over to employer
Solo Service Group	Small	No	8				District	New employer joined Aug 19. No i-Connect at this time, to be done as one at a later date.
Kirby Muxloe PC	Small	No	8				District	
SLM (Blaby DC)	Small	No	8				District	
BARROW UPON SOAR PC	Small	No	8				District	
Bagworth & Thornton PC	Small	No	8				District	
Oakthorpe, D & A PC	Small	No	8				District	
East Goscote Parish Council	Small	No	8				District	
CSE Ltd	Small	No	8				District	
Future Cleaning Services	Small	No	8				District	
SILEBY PARISH COUNCIL	Small	No	8				District	
Spire Homes Limited	Small	No	8				District	
East West Community Centre Ltd	Small	No	8				District	
G Purchase Construction LTD	Small	No	8				District	
Grobby Parish Council	Small	No	8				District	
Pinnacle Group	Small	No	8				District	
MCS Cleaning	Small	No	8				District	
Bradgate Park Trust	Small	No	8				District	
Thurcaston & Cropston PC	Small	No	8				District	
Rushcliffe Care Ltd	Small	No	8				District	
Seven Locks Housing	Small	No	8				District	
Aspens (City Crown Hills)	Small	No	8				District	
SHEPSHED PARISH COUNCIL	Small	No	8				District	
Whetstone PC	Small	No	8				District	
Fusion Lifestyle	Small	No	8				District	
Caterlink (Mowbray Ed Trust)	Small	No	8				District	

ASHBY TOWN COUNCIL	Small	No	8	District
ANSTEY PARISH COUNCIL	Small	No	8	District
A B M Catering Ltd	Small	No	8	District
Stephenson Studio School	Small	No	8	District
Blaby Parish Council	Small	No	8	District
Chartwells	Small	No	8	District
SYSTON TOWN COUNCIL	Small	No	8	District
Caterlink (Fulhurst CC)	Small	No	8	District
Ryhall CE Academy	Strictly Ed	No	8	District

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Leicestershire Pension Fund – Breaches Log (as at November 2019)

To be read in conjunction with the Funds “Procedure for Reporting Breaches of the Law to the Pensions Regulator”

Date	Who identified the breach	Cause	Effect	Reaction	Wider Implications	Material or Not	If material – date reported to TPR	Outcome
April 2016 to January 2017	Investment Manager	Continued late payment of contributions from Cottesmore Primary	Delayed investment of the contributions	Prompt reminders issued	Nil. No impact on the members benefits	Not material (but TPR made aware)	9 January 2017	TPR instructed the Fund resolve it directly. Payments now made on time
August 2016 to June 2017	Pensions Manager	New admission body and outsourcing employer’s failure to sign the legal documents, relating to the new employer joining the Fund	Scheme members delayed joining the scheme	Prompt reminders and implications explained to all parties	Delayed contributions into the Fund. Members not covered during the delay period	Not material, if resolved by August 2017	n/a	Local Pension Board added pressure. All documents were signed and members benefits were fully backdated and all contributions were received
September 2017	Pensions Manager	One Fund employer did not resolve all their year-end queries	200 actives members annual benefit statements were not provided	Prompt action taken by the Fund and the	Nil. Statements were received the year before	Not material	n/a	The employer resolved the queries by the end of September 2017.

		by the statutory deadline	by the 31 August. 58,345 statements were produced by the 31 August.	employer				Statements were produced in October 2017.
September 2017	Pensions Manager	New admission body (CSE) unable to secure a full bond and therefore legal documents remain outstanding	One member unable to remain in the Fund until the documents are completed	Large amounts of administration, legal and actuarial time has been spent. Prompt reminders and a face to face meeting has taken place	Member still unable to join the scheme. The member and the Union are aware of the situation	Not material currently. To be resolved internally.	n/a	All legal documents completed April 2019. Scheme membership backdated to the date of transfer for the scheme member.
September 2018	Pensions Manager	7 employers did not resolve all their year-end queries by the statutory deadline	69 active members annual benefit statements were not provided by the 31 August. 61,574 statements were produced by the 31 August.	Remaining 69 cases being completed by the employers in September 2018	Nil. Statements were received the year before	Not material	n/a	Ongoing for 69 cases. Statements to be produced by the 30 November 2018
March 2019	Pensions Manager	A small number of the larger	Delay in resolving scheme members	Chair of Pension Board	Potential increased costs	Not material	n/a	Only one employer has not responded

		employers had not completed their scheme discretions	benefits Increased likelihood of appeals made against these employers	wrote to the employers	for these employers			to the letter. All other larger employers have either provided their discretions or are doing so currently.
November 2018	Pensions Manager	New admission body and outsourcing employer's failure to sign the legal documents, relating to the new employer joining the Fund.	Scheme members delayed joining the scheme	Prompt action taken by the Fund and the employer Members are aware of the delays caused by the employers	Delayed contributions into the Fund Members not covered during the delay period No new employer data available to the scheme actuary for the fund valuation	Was considered material – but given 2 weeks extension and all documents signed before it was raised with the Regulator	n/a	All legal documents signed and members benefits backdated to the date of the transfer. All members information.
September 2019	Pensions Manager	One employer did not resolve all the payroll year-end queries by the	490 active members annual benefit statements were not provided	Prompt action being taken by the Fund and employer to resolve the	Statements not received by the deadline. These members received	Not material if resolved by the end	n/a	Statements to be produced and sent to members. (on-going)

		statutory deadline	by the 31 August. Over 61,000 statements were produced by the 31 August	remaining queries	statements in previous years and have the online modeller available, should they wish to use it	of 2019		
October 2019 to date	Pensions Manager	Pension Regulations changed in April 2014 – if a member does not claim their refund (if they leave with less than 2 years services) it has to be paid after 5 years (April 2019 onwards)	A breach of regulations but not an unauthorised payment under HMRC tax rules The LGA recognise the flaw in the current regulation and this may be revoked in future	Pensions now write to less than 2 years leavers, detailing their requirement to receive a refund after 5 years	A breach of the current pension scheme regulations	Not material as this will take place every month from April 2019 onwards and each member will be written to	n/a	Ongoing and therefore a new standard process has been developed to deal with this

As at 19 November 2019



LOCAL PENSION BOARD

2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION

Purpose of the Report

1. The purpose of this report is to inform Board of the Leicestershire Local Government Pension Scheme (LGPS) draft valuation results and the consultation with the employers on the Funding Strategy Statement.

Background

2. Each LGPS administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all Funds in England and Wales need to have a valuation carried out as at 31st March 2019. Leicestershire County Council Pension Fund's actuarial valuation has been carried out by Richard Warden of Hymans Robertson LLP.
3. The major purpose of the actuarial valuation is for the actuary to set employer contribution rates for a three year period, that commences one year after the valuation date (i.e. for the period 1 April 2020 to 31 March 2023). In order to set these contribution rates the actuary must take account of a large number of factors, most of which are assumptions of what will happen in the future. These assumptions do not impact onto the ultimate cost of paying benefits they simply calculate the liability derived from these benefits, which in turn impacts the level of contributions set.
4. In May 2019 MHCLG launched a consultation which included a proposed change to the valuation cycle from 3 years to 4 years so that the dates of the national LGPS cost management valuation and LGPS valuations aligned from March 2024. The Fund has been informed the next valuation will take place of the 31 March 2022 regardless of the outcome of the consultation, meaning the actuary will certify three years worth of contributions for the period 1 April 2020 to 31 March 2023 in the Rates and Adjustment certificate in the Fund's 2019 valuation report. This is welcomed by the Fund.
5. Throughout the Valuation process the actuary has a professional responsibility to certify contribution rates that are considered reasonable.

There is also a requirement within the LGPS Regulations that there is an element of prudence built into the actuarial assumptions and that the actuary sets contributions in line with these prudent assumptions and that they are as stable as possible.

6. In 2016 the valuation calculated a 76% funding level. The draft results in the 2019 valuation calculate a 89% funding level using a discount rate of 3.8%, which is significant funding improvement. In the main, this has been delivered from significant investment returns in the three years. Previously, the Fund considered using a discount rate of 4.1% for the 2019 valuation, but during subsequent valuation work, the Fund has decided to use a more prudent rate. Such investment returns are highly unlikely to recur, so the Fund will need to ensure the right balance between investment returns and employer contributions is achieved, to close the remaining deficit.
7. Whilst the fund valuation is good news, the Fund remains in deficit and work continues to close this. In addition, the Fund needs to reduce the deficit recovery period for Fund employers. This is the period of time employers have to repay their fund deficit. The maximum deficit recovery period was 20 years in the 2016 valuation and three years later, this has reduced to 17 years in the 2019 valuation for the majority of employers and 15 years for Colleges and Universities.
8. Government Actuaries Department (GAD) and Chartered Institute of Public Finance and Accountancy (CIPFA) guidance both request Funds continue to work to reduce the deficit recovery period so the move from 20 years to 17 years meets this.

Employer Risk Profiling

9. The Valuation has produced employers' contribution rates for all employing bodies within the Fund. These contribution rates take account of the particular circumstances of each employing body, and the rates are a combination of the cost of paying for future service as it accrues, plus an adjustment for paying off the deficit over an appropriate period of time.
10. To protect Fund employers it is essential that the potential for an organisation to default on its liabilities is taken into account. To support this a more scientific approach to employer risk profiling for this Valuation has been included. Officers have considered the risk profiles of certain Fund's employers.
11. The level of risk, presented to the Fund, is a key determinant in the period of time that the deficit can be recovered over. For example; tax raising bodies tend to be classified as low risk employers; affording them the greatest flexibility in repaying the deficit. Conversely private sector companies are classified as highest risk, although this is managed with public sector guarantors and bonds. Deficits are not usually permitted to extend beyond the length of the contract for private sector companies. Higher risk employers

have been reviewed to ensure suitable deficit recovery periods and security is in place.

Deficit Recovery

12. The repayment of the historic deficit is usually expressed as a percentage of pensionable pay, for active members. This benefits from simplicity in application, as it is in line with the contribution for future service, and comparability. However, an assumption is required on future pensionable pay. This could result in an organisation with a declining membership underpaying, hence it is recommended that where practical employers deficit repayments are set as cash values.

Stabilisation

13. To avoid large increases or decreases in employer contributions employers, who are deemed to be the lowest risk, are offered a stabilisation rate. The lowest risk category relates to employers who have tax raising powers and are legally required to offer employees membership of LGPS. The stabilisation mechanism works by limiting increases or decreases in contributions by a set amount each year. This avoids significant or sudden contribution changes and smooths the impact of any short term volatility on contributions. It also aids employers budgeting. The downside of stabilisation is that the Fund remains in deficit for longer ultimately making paying off the deficit more expensive than it otherwise would have been.
14. Hymans has a modelling tool which was used in the previous three Valuations, called comPASS, which can assess contribution rate strategies over the long-term. This allows a judgement to be made whether the strategies are likely to be sufficient to return the sub-fund of an individual employer to a fully funded position within the agreed deficit spreading period.
15. ComPASS uses 5,000 separate economic scenarios with different potential outcomes (investment returns, inflation etc.), thereby giving a very robust result. The Actuary has carried out modelling to allow the Fund to understand the long term likelihood of meeting the funding target and assess the downside risk.
16. To ensure that the contribution strategies are reasonable the requirement is for the modelling to show that:
 - 75% of the outcomes will result in a fully funded position and
 - The funding level in the worst 5% of outcomes does not fall below 50%
17. All the low risk employers listed below have met the required level, assessed on an employer rate increasing by 1.0% per year using a 17 year deficit recovery period. The results mean stabilised employers should budget for 1.0% increases in their current total contribution rate each year. The Actuary has indicated that this rate could be justified for five years, not just the standard three.

- Leicestershire County Council
- Leicester City Council
- Blaby District Council
- Charnwood Borough Council
- Harborough District Council
- Hinckley & Bosworth Borough Council
- Melton Borough Council
- North West Leicestershire District Council
- Oadby & Wigston Borough Council
- Rutland County Council
- Leicestershire Fire Authority (civilian staff)
- Leicestershire Police and Office of the Police and Crime Commissioner (civilian staff)

18. For the non-stabilised employers, their employer rates have been calculated taking into account their employer risk, agreed assumptions and for the admission bodies, their length of their main contract of service. The whole Fund results are included in Appendix A.

Agreement of key actuarial assumptions

19. The key financial assumptions required for the valuation are:

- Investment returns
- Inflation
- Salary Growth
- Longevity

20. Investment returns are based on two separate assumptions. The first assumption is the Fund's future investment returns for the next 20 years. This is derived in a similar way to the comPASS modelling with multiple economic projections being created. These projections are used to calculate the expected performance of each of the asset classes the Fund holds. This range of expected returns over the 20 year period is applied to the holdings in the Fund's asset allocation strategy.

21. Beyond a 20 year time horizon uncertainty increases greatly, hence a different approach is taken. A single assumption about future investment returns is set, this is known as the discount rate. The discount rate is set independently of today's economic conditions. To make a prudent estimate of future investment returns the following steps are taken:

- Estimate the risk free rate of return – uses long-term UK government bonds yields (gilts)

- Estimate the expected return in excess of gilt yields, know and the asset outperformance assumption (AOA)
- Assess the likelihood of the AOA being met based upon the Fund's current strategic asset allocation.

22. The table below shows the outcome of the assessment:

Likelihood of achieving this margin from year 20	Asset outperformance assumption (% p.a.)		
	1.8%	2.0%	2.2%
Current strategy	78%	75%	72%

23. In the 2016 valuation the AOA was 1.8%, hence based upon this assessment Committee approved in July 2019, to maintain the discount rate assumption of Gilts + 1.8% p.a.

24. The inflation assumption is derived from the difference between yields on index-linked and conventional government bonds. This produces an estimate of the Retail Prices Index (RPI). However, the Consumer Price Index (CPI) is more relevant to the Fund, hence the actuary uses a standard assumption to derive the CPI figure (RPI – 1%) p.a.

25. The salary growth assumption is required due to the final salary benefits of active scheme members. The importance of this assumption is declining. In 2014 all benefits were final salary, as at March 2019 it is estimated that 62% will be final salary, with the balance being based upon career average. Note promotional increases are set separately.

26. Based upon the latest national pay award (2%) and the impact of the National Living Wage (c.0.5%) for 2019/20 three scenarios were modelled for future salary increases:

Increase p.a.	CPI	CPI + 0.5%	CPI + 1.0%
Approximate change to funding level	2%	1%	0%

27. The 2016 assumption of CPI + 1% (RPI) reflected the more common used measure of local government inflation at the time. Subsequently the level of CPI has been the main consideration for items such as pay awards and tax increases. Hence Committee approved the recommendation in July 2019 the salary assumption is CPI + 0.5% p.a.

28. Recent announcement by the main political parties suggest the National Living Wage will increase at a faster rate than previously experienced. Whilst this will be detrimental to the funding position it is not sufficiently material to require a change in assumptions at this stage of the valuation.

29. Longevity estimates are based upon modelling performed by Club Vita. From the 2019 whole Fund results the reduction in liabilities is approximately 3%.

Other Factors

30. In December 2018 the Pensions Board received a report outlining that the LGPS “cost cap” was likely to be breached. The implication of this would be for scheme members benefits to be increased or employee contributions reduced. Prior to a decision being made on the approach the Government lost an Employment Tribunal appeal regarding the transitional provisions for a reduction in benefits. This is also applicable to the LGPS. The case is widely referred to as McCloud. Until the McCloud remedy is confirmed the cost cap work has been shelved.
31. Scheme Advisory Board (SAB) subsequently confirmed in the absence of any further detail, fund actuaries should value the benefits accrued from 1 April 2014 in line with the current Regulations for the purpose of the 2019 valuations. The guidance also directed funds to consider how they manage the risk associated with the uncertainty around the actual cost of LGPS benefits due to the McCloud case (including the approach to setting employer contribution rates). At a more recent meeting MHCLG confirmed that their expectation is for each LGPS fund to explicitly state in their actuarial valuation report and/or Funding Strategy Statement how they have made an allowance for the McCloud ruling. In particular, where any employer contribution rates are being reduced from those currently in payment, Funds should be clear that they have taken account of the McCloud ruling before taking the decision to reduce contribution rates. It is expected the Government Actuary Department (GAD) will look at this when they carrying out their Section 13 valuations next year.
32. The Leicestershire Fund has agreed with the Fund Actuary to account for the potential uncertain impact of McCloud by a targeting a higher probability of success in setting employer rates. This will be clearly documented in the revised version of the Funding Strategy Statement and the actuary will consider how this is best presented in the final valuation report.

Funding Strategy Statement

33. The Fund’s draft Funding Strategy Statement (FSS) has been amended to reflect the Fund’s approach to the 2019 valuation. The key changes are highlighted in the report in yellow and relate to the following;
 - Full details of the Fund’s stabilisation policy
 - Fund’s approach to setting employer contribution rates
 - Fund’s cessation policy

The draft FSS includes a table detailing the Fund’s framework for setting differing employer groups rates.

The Fund started a consultation with employers on the FSS after the AGM on the 18 November, ending on the 31 December 2019. Any replies received from employers will be considered. The final FSS will be taken to the Pensions Committee in January 2020 with the final valuation results and they will also be presented to the Board. The draft FSS is attached as Appendix B

Timeline

34. The timeline for providing information to employers about the valuation is as follows:

- 8 November 2019. Officers and the Actuary presented the full fund results and the draft Funding Strategy Statement to the Local Pension Committee.
- 18 November 2019. The Pension Fund Annual General Meeting and employer forum took place. All employer results were presented by Officers and the Actuary.
- January 2020. Pensions Committee to formally sign off the Funding Strategy Statement after consultation ends and the final valuation results.
- 1 April 2020. New employer rates commence.

Recommendation

35. It is recommended that the Pensions Board notes;

- (a) That a consultation with the Fund Employer on the draft Funding Strategy Statement commenced after the Leicestershire Pension Fund Annual General Meeting on the 18 November 2019;
- (b) The framework for setting individual employer rates;
- (c) The whole fund results, as detailed in Appendix A.

Equality and Human Rights Implications

36. None

Appendices

Appendix A – Whole fund results

Appendix B – Draft Funding Strategy Statement

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Leicestershire County Council Pension Fund

2019 Actuarial Valuation

Initial Results

October 2019

Richard Warden FFA

Anne Cranston AFA

For and on behalf of Hymans Robertson LLP



Contents

2019 Actuarial Valuation Initial Results

Page

1	Introduction	1
2	Data	2
3	Assumptions	2
4	Funding position as at 31 March 2019	7
5	Sensitivity analysis of the funding position	11
6	Next steps	13

Appendices

- Appendix 1 – Projecting the Fund's Assets
- Appendix 2 – Economic Scenario Service

1 Introduction

We have been commissioned by Leicestershire County Council (“the Administering Authority”) to carry out a full actuarial valuation of the Leicestershire County Council Pension Fund. (“the Fund”) as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

This report is addressed to the Administering Authority. The purpose of this document is to;

- present the current funding position of the Fund using a range of actuarial assumptions; and
- explain why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
- show the sensitivity of the funding position.

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk for which it may wish to explore possible avenues of risk mitigation during the valuation process.

This report should not be shared with any third parties without our prior written consent. Where consent is given, the report should be supplied in full including any related reliances and limitations.

Please note that Hymans Robertson LLP accept no liability to any third parties. The reliances and limitations in this report apply equally to all users of this report.

The following Technical Actuarial Standards¹ are applicable in relation to this report and have been complied with where material:

- TAS 100 – Principles for technical actuarial work;
- TAS 300 – Pensions.

However, it should be noted that this report does not comply with paragraph 12 b) or c) of TAS 300. The figures in this report provide a notification of the whole fund funding position. This report does not include individual employer contributions. Therefore, we do not believe the exclusion of the information required under these paragraphs is material.

¹ Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

2 Data

We have relied on the following items of data provided by the Administering Authority when carrying out our calculations:

- Membership data initially uploaded to the Data Portal on 15 August 2019 and finalised on 25 September.
- Cashflow data uploaded over the course of the inter-valuation period for HEAT. The final monthly data submission was uploaded to the Data Portal on 4 September 2019.
- Investment data provided by the Administering Authority over the course of the inter-valuation period (summarised in Section 4).

The accuracy of our results is limited by the quality of the data provided. We have carried out validations on the data provided to ensure it is fit for the purpose of the valuation. Further details can be found in our paper entitled “Data report for 2019 valuation”. We believe the membership data is fit for the purposes of this valuation.

The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at <http://www.lgpsregs.org/>. The Administering Authority should note that the LGPS benefit structure is currently under review following the Government’s loss of the right to appeal the McCloud court case. At the time of writing we have not been provided with details for any subsequent benefit improvements and as such have not allowed for any in our calculations. This is approach is in line with the [advice issued by the Scheme Advisory Board in May 2019](#).

3 Assumptions

The key assumptions required to carry out the formal valuation, and our approach to setting the assumptions, are discussed in guides 7 (*Longevity and other demographic assumptions*), 8 (*Financial Assumptions*) and 9 (*Measuring a funding level*) of our [2019 valuation toolkit](#).

To set appropriate assumptions for the valuation of the Leicestershire County Council Pension Fund, the Administering Authority commissioned the following actuarial advice to assist its assumption setting:

- Paper entitled “2019 Valuation: Setting the discount rate” dated May 2019
- Paper entitled “2019 Valuation: Salary growth assumption” dated May 2019.

The valuation assumptions were provisionally agreed by Officers following these papers and discussed at a Pensions Committee meeting on 5 July 2019.

Demographic assumptions

Longevity

The proposed 2019 valuation longevity assumptions are set out below, along with the assumptions adopted for the 2016 valuation:

Longevity Assumptions	31 March 2016	31 March 2019
Baseline Longevity	Club Vita	Club Vita
Future improvements	CMI2013, Peaked, 1.25% p.a. long term	CMI2018, Smoothed, 1.25% p.a. long term

The proposed longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2016 shown for comparison):

Assumed Life Expectancy	31 March 2016	31 March 2019
Male		
Pensioners	22.1 years	21.5 years
Non-pensioners	23.8 years	22.2 years
Female		
Pensioners	24.3 years	23.8 years
Non-pensioners	26.2 years	25.2 years

Non-pensioners are assumed to be aged 45 at the valuation date

Other demographic assumptions

The other proposed 2019 valuation demographic assumptions are set out below:

Demographic Assumptions	
Retirements in normal health	We have adopted the retirement age pattern assumption as used for the purpose of the 2016 LGPS cost cap valuation. Further details are available on request.
Death in Service	See sample rates below
Retirements in ill health	See sample rates below
Withdrawals	See sample rates below
Promotional salary increases	See sample increases below
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependant of a female member is assumed to be 3 years older than her.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Sample rates for demographic assumptions

Males

Incidence per 1000 active members per annum								
Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	252.69	439.47	0.00	0.00	0.00	0.00
25	117	0.21	166.91	290.28	0.00	0.00	0.00	0.00
30	131	0.26	118.43	205.93	0.00	0.00	0.00	0.00
35	144	0.30	92.53	160.88	0.10	0.07	0.02	0.01
40	150	0.51	74.50	129.48	0.16	0.12	0.03	0.02
45	157	0.85	69.98	121.60	0.35	0.27	0.07	0.05
50	162	1.36	57.68	100.12	0.90	0.68	0.23	0.17
55	162	2.13	45.42	78.88	3.54	2.65	0.51	0.38
60	162	3.83	40.49	70.28	6.23	4.67	0.44	0.33
65	162	6.38	0.00	0.00	11.83	8.87	0.00	0.00

Female

Incidence per 1000 active members per annum								
Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.12	227.37	252.63	0.00	0.00	0.00	0.00
25	117	0.12	152.99	169.97	0.10	0.07	0.02	0.01
30	131	0.18	128.25	142.46	0.13	0.10	0.03	0.02
35	144	0.30	110.69	122.91	0.26	0.19	0.05	0.04
40	150	0.48	92.12	102.26	0.39	0.29	0.08	0.06
45	157	0.77	85.97	95.41	0.52	0.39	0.10	0.08
50	162	1.13	72.48	80.35	0.97	0.73	0.24	0.18
55	162	1.49	54.08	60.02	3.59	2.69	0.52	0.39
60	162	1.90	43.58	48.31	5.71	4.28	0.54	0.40
65	162	2.44	0.00	0.00	10.26	7.69	0.00	0.00

Financial assumptions

The key financial assumptions used to assess the funding position as at 31 March 2019 are set out below.

Salary and Benefit Increases

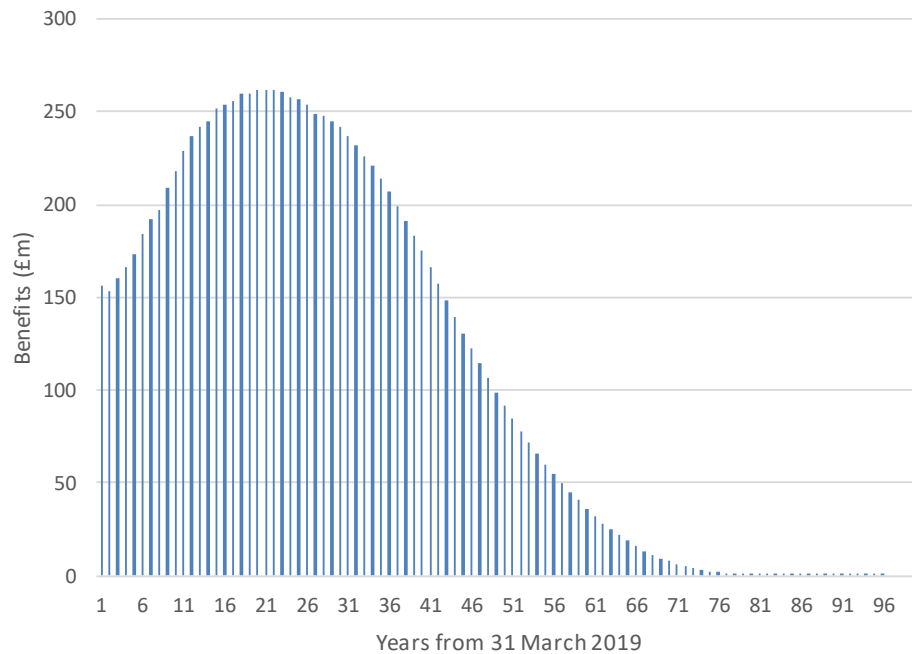
The table below details the salary increase, CARE revaluation rate and benefit increase assumptions at 31 March 2019. The equivalent assumptions used in the 2016 valuation are shown for comparison.

Financial Assumptions	31 March 2016	31 March 2019
Benefit increases and CARE revaluation (CPI) (% p.a.)	2.1%	2.3%
Salary increases (% p.a.)	3.2%*	2.8%**

*CPI plus 1.0%

**CPI plus 0.5%

Combining the membership data and the demographic and financial assumptions described above allows us to project the future benefit payments from the Fund for all benefits accrued up to 31 March 2019. The chart below shows this projection.

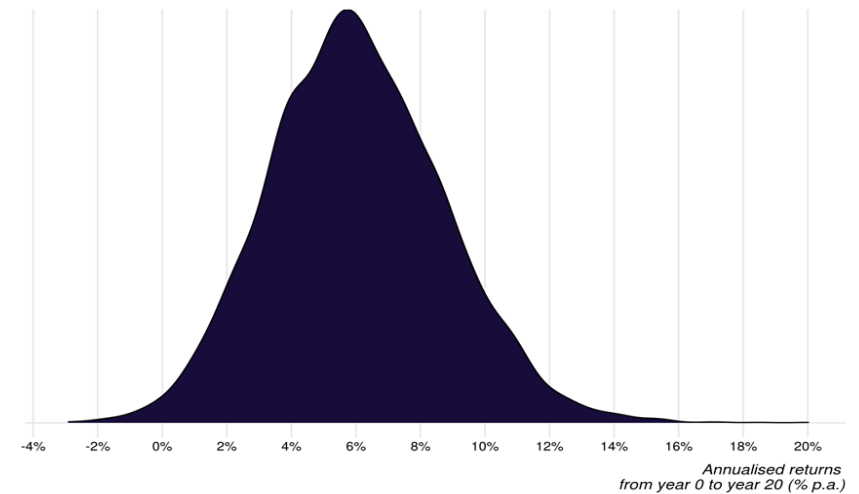


Investment Return

For the purpose of measuring the funding position, we need to be able to compare the value of the Fund's assets against the value of all these future benefit payments (the liabilities). To be able to place a value on these payments in today's money we need to make an assumption about the future investment returns that will be generated from the Fund's assets after the valuation date. The higher the assumed return, the lower the liability value and therefore the higher the funding level.

The value placed on the liabilities, and hence the funding level, is extremely sensitive to the investment return assumption. Whilst there is a requirement for this assumption to be prudent, there is a range of assumptions that the Fund could consider meets this prudence criteria. We believe the valuation outputs are more meaningful when stakeholders can understand the likelihood, and hence the level of prudence, attached to them.

Using the Fund's current investment strategy and running 5,000 simulations of our proprietary economic model, the Economic Scenario Service (ESS), we have generated a distribution of possible future annual investment returns over the 20 years from the valuation date:



Details of the investment strategy and assumptions underlying the ESS model can be found in the Appendix.

From the above chart, we can derive that:

- There is a 50% likelihood of the Fund's investments achieving at least an annual return of 5.9% p.a. over the next 20 years;
- There is a 70% likelihood of the Fund's investments achieving at least an annual return of 4.5% p.a. over the next 20 years; and
- There is a 80% likelihood of the Fund's investments achieving at least an annual return of 3.8% p.a. over the next 20 years.

5.9% p.a. would not be an appropriate investment return assumption for the purpose of the valuation as this represents our 'best estimate' of future investment returns and therefore does not include a margin for prudence.

For the purpose of reporting a funding level and funding surplus/deficit for the 2019 valuation, we have selected the investment return assumption which has an associated 80% likelihood, namely 3.8% p.a..

The assumption used in the valuation as at 31 March 2016 was 4.0% p.a.. Note, that this was derived using a different method from that described above. Leaving this unchanged at the 2019 valuation would equate to a likelihood of 77% under the new methodology.

Financial Assumptions	31 March 2016	31 March 2019
Investment return (% p.a.)	4.0%	3.8%

Employer Contributions

The ESS model is also used in our approach to setting employer contribution rates (set out in guides 5 and 6 of our [2019 valuation toolkit](#)). This approach does not rely on a single set of assumptions but involves the projection of the employer's future benefit payments, contributions and investment returns under 5,000 future economic scenarios. In this modelling, inflation (and therefore benefit payments) and investment returns for each asset class (and therefore investment return) are variables and take different values in each projection.

Further details on the assumptions required to set employer contribution rates are set out in guide 8 (Financial Assumptions) of the 2019 valuation toolkit. The assumptions which comprise each employer's Funding Target will be set out in the Funding Strategy Statement.

Comment on the proposed assumptions for the 2019 valuation

As required for Local Government Pension Scheme valuations, our approach to this valuation must include a degree of prudence. For the purpose of measuring the funding position, this has been achieved by explicitly allowing for a margin of prudence in the future investment return assumption.

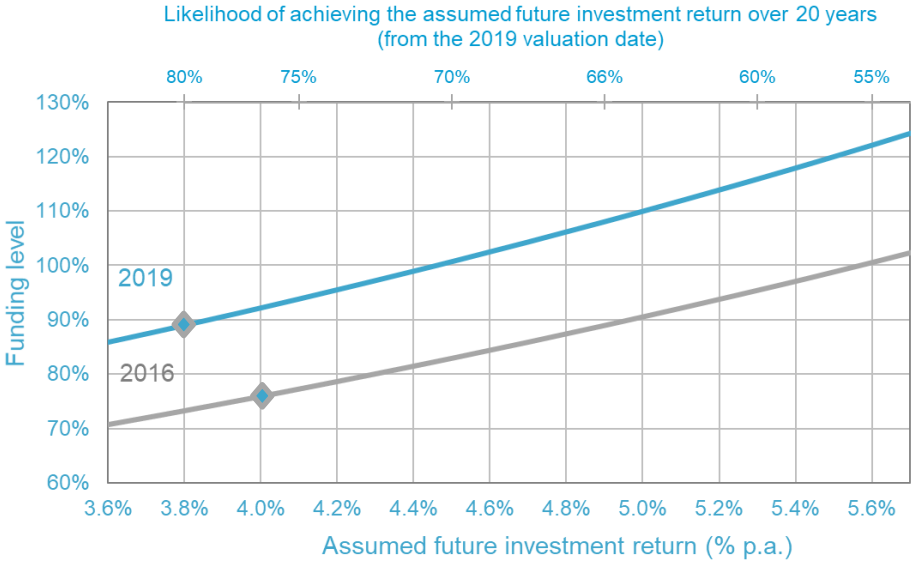
We believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate.

4 Funding position as at 31 March 2019

Understanding the likelihood associated with certain levels of assumed future investment returns (based on the information discussed in Section 3) means we can better understand the Fund’s funding position.

The following chart shows how the funding level varies with the future investment return assumption. For comparison, the funding level associated with the same choice of investment return assumption at the 2016 valuation is also shown.



From this chart, we can see that:

- The funding position would be 100% if future investment returns were around 4.5% p.a.. The likelihood of the Fund’s assets yielding at least this return is around 70%.
- Conversely, if future investment returns are on average 3.8% p.a. over the long term then the Fund currently holds sufficient assets to meet 89% of the accrued liabilities. The likelihood of achieving at least this level of future investment return is 80%.

It can be seen from the above chart that for any given expected future investment return, the funding position of the Fund has improved since the previous actuarial valuation in 2016. This is mainly a result of the strong investment performance of the Fund over the period from 31 March 2016 to 31 March 2019.

Whilst this chart gives the Fund a better understanding of the funding position than a single funding level, the Fund is still required to report a single funding balance sheet. Using the assumptions outlined in Section 3, including the selected investment return assumption of 3.8% p.a., the reported funding position of the Fund at the valuation date is summarised below. The asset figures are the market value of the Fund’s assets as at 31 March 2019. The results at the 2016 formal valuation are shown for comparison.

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	1,684	1,842
Deferred Pensioners	812	966
Pensioners	1,658	2,041
Total Liabilities	4,153	4,849
Assets	3,164	4,312
Surplus / (Deficit)	(989)	(537)
Funding Level	76%	89%

There has been an improvement in the reported funding level of the Fund from 76% to 89% and a reduction in the funding deficit from £989m to £537m.

It is critical to note that the reported funding level does not directly drive the contributions that will be set. A robust funding plan will be set for each employer which considers how the assets and liabilities will evolve over time in different economic scenarios.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2019, however the limitations of these figures should be noted.

The funding position is calculated using a single set of assumptions about the future and is very sensitive to the choice of assumptions (see Section 5). The funding level is also volatile and will change as the market value of the assets held by the Fund changes.

Although the funding level is limited in nature, tracking it can help the Fund gain an understanding of the factors that cause their pensions costs to change over time. As part of the valuation exercise, we analyse the experience of the Fund and its membership since the previous formal valuation and quantify the impact

of this experience on the funding surplus or deficit. The analysis helps to identify where changes may be needed in some assumptions or the Fund may wish to review existing risk management policies.

Since the previous valuation, various events have taken place which affect the funding position of the Fund.

Financial Markets experience

Investment returns

Investment returns	Expected	Actual	Difference	Impact on funding position
Over 3 year period	12.6%	35.2%	22.7%	Positive
Annual	4.0%	10.6%	6.6%	Positive

The Fund has experienced better than anticipated investment returns. The investment return in excess of the 2016 valuation assumption serves to 'pay back' a greater portion of the deficit than expected. Therefore, all other things being equal, this improves the funding position.

Inflation

Future inflation expectations	2016	2019	Difference	Impact on funding position
Expected CPI inflation (p.a.)	2.1%	2.3%	0.2%	Negative

Long term expectations for Consumer Prices Inflation (CPI) have increased slightly since 2016. Taken in isolation, this slightly worsens the funding position.

Fund expenses

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £5.1m. This figure is equivalent to 0.3% when expressed as a percentage of pensionable pay which is slightly higher than the last valuation (0.2%). Unless otherwise instructed, we propose to make allowance for the Fund's expenses by adding an allowance of 0.3% of pay to employer contribution rates payable from 1 April 2020.

Membership experience

The areas of membership experience that have had the greatest impact on the surplus/deficit position of the Fund are set out below:

	Expected	Actual	Difference	Impact on funding position
Pre-retirement experience				
Early leavers (no.of lives)	7,624	11,699	4,075	Positive
Ill-health retirements (no.of lives)	293	160	(133)	Positive
Salary increases (p.a.)	3.8%	3.9%	0.1%	Negative
Post-retirement experience				
Benefit increases (p.a.)	2.1%	2.1%	(0.0%)	Positive
Pensions ceasing (£000)	7,995	7,573	(422)	Negative

Regulatory experience

Indexation and equalisation of Guaranteed Minimum Pensions (GMP)

In their [January 2018 consultation response](#), HMT stated that their preferred long term indexation solution of converting GMP to scheme pension will also meet the requirements of equalisation.

For the 2019 valuation we have assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This has served to increase the value placed on the liabilities.

LGPS cost sharing mechanism and the McCloud court case

Following the results of the first LGPS cost sharing valuation (communicated in Autumn 2018), it was expected that benefit improvements would be granted in

respect of future benefit accrual from 1 April 2019. It was estimated that the improvement would cost 0.9% of payroll for a typical LGPS employer. This change in the LGPS benefit structure has been put on hold whilst the recent age discrimination cases in public sector pension schemes (colloquially known as “McCloud”) are resolved. The benefits earned by some members since 1 April 2014 could be materially improved as a result of the McCloud case, increasing the value of the Fund’s liabilities.

Based on [advice issued by the Scheme Advisory Board in May 2019](#) we have based our 2019 valuation calculations on the benefits as currently set out in the Regulations. That is, we have not made an allowance for the impact on (past and future service) liabilities of either the first LGPS cost sharing valuation or McCloud court case.

Comments on employers

Every employer is valued separately based on their own membership data as part of the valuation and their change in funding position will therefore vary compared to that of the whole fund based on their individual experience. This information will be available later in the valuation process.

Reconciling the change in the funding position

Quantifying and combining the impact of financial markets, membership and regulatory experience on the Fund’s assets and liabilities provides an overall insight into how the funding position has changed between valuations. This is detailed in the following table:

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	3,164	4,153	(989)
Cashflows			
Employer contributions paid in	401		401
Employee contributions paid in	116		116
Benefits paid out	(457)	(457)	0
Net transfers into / out of the Fund*	(8)		(8)
Other cashflows (e.g. Fund expenses)	(5)		(5)
Expected changes in membership			
Interest on benefits already accrued		525	(525)
Accrual of new benefits		516	(516)
Membership experience vs expectations			
Salary increases greater than expected		2	(2)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	13	11	1
Ill health retirement strain**	7	(21)	28
Early leavers greater than expected		(5)	5
Pensions ceasing less than expected		2	(2)
Commutation less than expected		5	(5)
Other membership experience		(14)	14
Changes in market conditions			
Investment returns on the Fund's assets	1,082		1,082
Changes in future inflation expectations		139	(139)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(14)	14
Change in longevity assumptions		(137)	137
Change in salary increase assumption		(41)	41
Change in discount rate		185	(185)
This valuation at 31 March 2019	4,312	4,849	(537)

* We have insufficient data to value the impact on the liabilities as a result of all transfers in/out.

**Payments received in respect of ill health liability insurance are included in the assets

5 Sensitivity analysis of the funding position

The valuation funding position results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made as at 31 March 2019 were exactly borne out in practice then the liability results presented in this document would represent the true cost of providing benefits from the Fund as it currently stands at 31 March 2019.

However, no one can predict the future with certainty and future experience will not exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund which should be identified and, where possible, the financial significance should be quantified. Thereafter the Fund can assess how (or if) these risks can then be controlled or mitigated and put in place monitoring to assess whether any mitigation is actually working.

In this Section we quantify how sensitive the funding position as at 31 March 2019 is to the assumptions made about the future.

Financial assumptions

Sensitivity of the funding position to future investment returns

The amount of assets needed by the Fund to meet its accrued benefits (liabilities) is extremely sensitive to the assumption for future investment returns. This was considered in Section 4.

Sensitivity of the funding position to future inflation

Pensions (both in payment and in deferment) in the LGPS increase annually in line with CPI. Furthermore, benefits accrued in the CARE scheme are revalued annually in line with CPI. If future CPI inflation is higher than our assumption as at 31 March 2019 then the value of the benefits will be higher than we have set out in Section 4.

To help understand the impact of CPI being different from our assumption, we have shown the effects on the funding position of varying the benefit increases and CARE revaluation (CPI) assumption below.

CPI Assumption	Surplus / (Deficit)	Funding Level
% pa	(£m)	%
2.1%	(398)	92%
2.3%	(537)	89%
2.5%	(676)	86%

Employer contribution rates

The above analysis focuses on financial risk to the funding position as measured at 31 March 2019. Our approach to setting employer contribution rates recognises the uncertainty around future investment returns and inflation and therefore does not rely on a single set of financial assumptions.

Demographic assumptions

Sensitivity of the funding position to life expectancy

The main area of demographic risk is people living longer than expected. We have shown below the high level impact of people living longer than currently expected by using a more prudent assumption for future longevity improvements. The proposed valuation assumption assumes that in the longer term mortality rates will fall at a rate of 1.25% each year. The more prudent assumption shown for this sensitivity analysis assumes that mortality rates will fall at a rate of 1.5% each year in the longer term.

Long term rate of improvement	Surplus / (Deficit)	Funding Level
% pa	(£m)	(£m)
1.25%	(537)	89%
1.50%	(576)	88%

Other demographic risks to consider

There are other risk factors which would have an impact on the funding position. Examples of these include the level of ill health retirements, withdrawals from the scheme and take up of the 50:50 option. These are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore we have not sought to provide further quantification of their risk.

Other risks

Regulatory, Administration and Governance risks

As well as financial and demographic risks, the Fund also faces: Regulatory risks – central government legislation could significantly change the cost of the scheme in the future; and: Administration and governance risk – failures in administration processes could lead to incorrect data and inaccuracies in the actuarial calculations. The risks should be considered and monitored by the Fund as part of its ongoing risk management framework.

Resource and environment risks

The Fund is exposed to risks relating to future resource constraints and environmental changes. These risks may prove to be material.

We have not sought to quantify the potential impact of these risks for the purpose of the results shown in this report, given the complexity and uncertainty involved. Further analysis is available to the Fund to illustrate the future impact of adverse climate outcomes.

Given their potential impact, the Administering Authority may wish to seek direct advice on resource and environment risks.

6 Next steps

The next steps in the process are as follows.

- All parties to ***understand the whole fund reported funding position result*** and agree the assumptions on which it is based, discuss any questions or issues before moving on to the next stage of the valuation process. This includes the Fund ***identifying any areas of risk*** that it is concerned about and wishes to explore further and understand how the risk can be identified, quantified, mitigated and monitored.
- All parties to ***understand that the whole fund reported funding position does not directly drive the contributions that will be set for individual employers.***
- We will agree the parameters with you (funding target, time horizon, probability of reaching target) for the ***assessment of each employer's proposed contribution rate.*** When we present you with these results, we will set out the contribution rates that each employer should pay for the next three years from 1 April 2020 based on these parameters.
- We will measure the ***valuation funding position that will be reported for each individual employer*** that participates in the Fund.
- For some employers, the contribution rate that they should pay in principle may be different to what they will actually pay in practice. Any deviation by the Administering Authority should only be based on each employer's own circumstances. The Administering Authority may consider a range of factors including (but not limited to) each employer's perceived security, pooling arrangements or budgetary constraints. We expect there to be a consultation period where you gather together all of these issues and ***come back to us with a set of final agreed contribution rates for each employer.***
- We understand that you may require additional input from us before agreeing the final contribution rates. You may want us to look at the viability of ***different contribution strategies*** that are proposed by individual employers.
- Once a set of final contribution rates have been agreed for all employers, we will provide you with a ***final valuation report*** which will clearly set out the final valuation results and will meet all the relevant regulatory requirements. Included in this report will be the Certificate of Rates and Adjustments, which will certify the minimum contribution rates to be paid by each employer for the three-year period beginning on 1 April 2020. This final valuation report must be provided to you no later than 31 March 2020.



Appendices

Appendix 1 – Projecting the Fund's Assets

The following investment strategy has been used to set the future investment return assumption as at 31 March 2019:

% allocation	Current strategy
UK equities	8%
Overseas equities	35%
Diversified Growth	5%
Infrastructure (equity)	9%
Private equity	4%
Total growth assets	61%
Index-linked gilts	8%
Total protection assets	8%
Multi asset credit	4%
Private lending	10%
Emerging Market Debt	3%
Fund of hedge funds	4%
Property	10%
Total income generating assets	31%
Grand total	100%

Appendix 2 – Economic Scenario Service

The following figures have been calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 31 March 2019. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force 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%		

The current calibration of the model indicates that a period of outward government bond yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) yield to rise from -2.1% (1.5%) to 0.8% (4.0%)

Leicestershire County Council Pension Fund

DRAFT - Funding Strategy Statement

November 2019

Contents

Funding Strategy Statement

PAGE

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	9
4	Funding strategy and links to investment strategy	23
5	Statutory reporting and comparison to other LGPS Funds	24

Appendices

Appendix A – Regulatory framework	26
Appendix B – Responsibilities of key parties	28
Appendix C – Key risks and controls	30
Appendix D – The calculation of Employer contributions	34
Appendix E – Actuarial assumptions	37
Appendix F – Glossary	41

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from **TBC 2020**. This FSS supersedes the FSS in place from **1 January 2017**.

1.2 What is the Leicestershire County Council 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 Leicestershire County Council Pension Fund, in effect the LGPS for the Leicestershire area, to make sure it:

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

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

If you have any other queries please contact Ian Howe in the first instance at e-mail address ian.howe@leics.gov.uk or on telephone number 0116 305 6945.

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

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

2.2 What is each employer's contribution rate?

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

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

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker 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 [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 particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level 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 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 benefiting at the expense of those paying in a different period.

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

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

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

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

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

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

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

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

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

The Fund has taken the following action:

An additional margin of prudence has been included in the method for setting contribution rates to allow for the uncertainty in the cost of past and future benefits. This margin has been established by targeting a higher likelihood of success for employers – see table 3.3.

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.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions,
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, 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 (including Parish/Town Councils)		Transferee Admission Bodies*
Sub-type	Local Authorities (incl. Police & Fire)	Colleges & Universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary Contribution rate	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No				
Maximum time horizon – Note (c)	17 years	15 years	17 years	17 years	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll / monetary amount	% of payroll / monetary amount	% of payroll	% of payroll	% of payroll/monetary amount	% of payroll/monetary amount depending on circumstances
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary contribution rate. However, reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	75%	80%	80%	80%	80%	TBC%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)				None, unless increases are particularly large
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: cessation 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 principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Cessation surplus or debt 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 credit or debt calculated on ongoing basis, unless cessation is caused by deliberate action taken by the employer. Awarding Authority will be liable for future deficits that arise.

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

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria based on tax raising status, financial security and time horizon in the Fund set by the Administering Authority and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring). or changes in the security of the employer.

On the basis of modelling carried out as part of the 2019 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Max cont increase p.a.	Max cont decrease p.a.
Tax raising body (excl. Town & Parish Councils)	+1% of pay	-1% of pay

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

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the period to reduce at successive triennial valuations so that the deficit recovery plan is a natural continuation of the previous plan, but would reserve the right to propose alternative spreading periods.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed the expected future working lifetime of active members.

Note (d) (Secondary rate)

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

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

Note (e) (Likelihood of achieving funding target)

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

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

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

- the Fund believes the employer poses a greater funding risk than other employers,

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

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

- i. The new academy will be regarded as a separate employer in its own right 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 those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.
- iv. It is possible for 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 transferring academy will pay the certified contribution rate of the MAT they are joining. If two MAT's merge during the period between formal valuations the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation.

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

Note (h) (New Admission Bodies)

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

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

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

The Administering Authority will only consider requests from Community Admission Bodies (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.

Historically, 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 value 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 \(j\)](#).

The Fund’s policy is that new admission body outsourcings are set up under a “pass through” arrangement (although exceptions will be considered on a case-by-case basis at the Fund’s discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. In particular there are three different routes that the letting employer may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same or similar rate as the letting employer.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit, or be 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 and actions wholly attributable to the new employer for example excessive pay awards.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and doesn't pay any cessation deficit or receive an exit credit at the end of the contract term. In other words, the pension risks "pass through" to the letting employer.

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

Although each matter will be dealt with on a case by case basis the Administering Authority default position is pooling with any surplus or deficit passing back to the letting employer. The Admission Agreement as well as the transfer agreement reflects this. The Admission 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;
- redundancy and early retirement decisions.

Employers which outsource should be aware that all actuarial costs relating to the outsourcing (which will include any work that is required at the end of a contract) will be charged to either the outsourcing employer or the contractor, and will NOT be met by the Fund. The exception will be the setting of employer contribution rates as part of a normal actuarial valuation, where the Fund pays actuarial fees as the work covers all employing bodies.

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered).
- The 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;
- The failure by the Admission Body to sign the admission agreement and/or bond documents and secure the required guarantee 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 within three months of the cessation date (or another date agreed between the Administering Authority and 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 [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

OR

make adjustments to the liability valuation, at individual member level, of the post 2014 benefit accrual, 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. 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 Transferee Admission Bodies any cessation valuation would normally be carried out on an on-going basis, as this will be the basis on which their opening position was calculated. Where a Transferee Admission Body has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (stopping future accrual of LGPS benefits, for example) then the cessation valuation will be carried out on a gilts basis.

Any cessation valuation, whether carried out on an on-going or a gilts basis, will calculate the surplus or deficit at the point of the cessation and full payment of any deficit amount will release the Transferee Admission Body from any further liability to the Fund. In the event that the sub-fund of the Transferee Admission Body subsequently falls into a deficit position, the outsourcing organisation will become responsible for the deficit

even if they did not act as a guarantor for the admission agreement. At no stage will the Fund, and hence all ongoing employing bodies within it, bear any financial risk in respect of any Transferee Admission Body.

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 there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in [Appendix E](#);
- b) Alternatively, 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;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit (or surplus) 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..

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

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

As an alternative, where the ceasing Admission Body (whether a Transferee Admission Body or a Community Admission Body) is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing 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

The Administering Authority will only allow employer pools to be set up if it legally required (perhaps as a result of LGPS Regulations) or where a request is received from a group of employers that they wish to become a pool.

Even if such a request is received, the Administering Authority will only agree to an employer pool if it is satisfied that the relevant employers have adequately considered the consequences of the pool and that there is a legal agreement in place which makes it impossible for the pool to be dissolved without the agreement of all parties, which will include an agreement on how the assets and liabilities will be split upon dissolution. Allowing pooling is entirely at the discretion of the Administering Authority.

Maintained schools do not have a separate legal identity so are not pooled with the relevant local authority; they are part-and-parcel of it. However there may be exceptions for specialist or independent schools.

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

3.5 Additional flexibility in return for added security

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

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

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

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

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- 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' or 'capitalised costs') 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.

For any early retirements that occur after 31/3/17, and where the Administering Authority had not previously agreed to payment in instalments, all costs must be met by way of a single payment in the year of retirement.

3.7 Ill health early retirement costs

Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation. If an employer decides to insure against the risk of ill-health retirements there will be a reduction to the employer's contribution rate that is the equivalent to the external insurance premium rate.

The Administering Authority receives a cash figure from the actuary for the cost of ill-health retirements that is built into each employer's contribution rate for the period covered by the actuarial valuation (i.e. for the period 1/4/19 – 31/3/22 for the 2019 valuation). Where an employer does not take out ill-health insurance, they will be invoiced for any cumulative ill-health retirement costs over the three year period that are above their allowance.

3.8 Ill health insurance

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

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

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 \(i\)](#)) 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. If this employer was a former Transferee Admission Body, the outsourcing employer will become responsible for any deficit (even if they did not act as a guarantor within the admission agreement). If the employer was not a Transferee Admission Body 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, but it should be noted that all surpluses in respect of non-Transferee Admission Bodies will be netted off any deficits so that it is only the net deficit position that will be apportioned;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. If this employer was a former Transferee Admission Body, the outsourcing employer will receive the benefit of the surplus (even if they did not act as a guarantor within the admission agreement). If the employer was not a Transferee Admission Body, any surplus will be netted off the deficit of similar types of employers as described in 3.9 a). In the event that the net position is a surplus the net surplus will be apportioned;

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation debt to continue contributing to the Fund, as opposed to paying a cessation deficit amount. 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

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;

- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the Local Pension Committee of Leicestershire County Council, after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement (ISS), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed annually. The Fund's liability profile is one of the considerations taken into account when setting investment strategy.

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 also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Local Pension Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the 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 Investment Strategy Statement (ISS).

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 is as follows:

- A draft version of the FSS was presented to the Local Pension Committee on the 8 November 2019 for initial comment;
- The draft version of the FSS was issued to all participating employers in November 2019 for comment;
- Comments from employers were requested before 1 January 2020, so that it can be brought back to Local Pension Committee meeting in January 2020 for final approval.
- Following the approval of the FSS by Local Pension Committee, it was published in February 2020 and became effective immediately upon publication.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <http://www.leics.gov.uk/pensions>;
- A copy sent by email to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation which may move to every four years in future – see Section 2.8). . This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2022.

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, meaningful changes to the FSS would need agreement by the Local Pension Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at <http://www.leics.gov.uk/pensions>.

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:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- 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;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and a ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
- 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;
- 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;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 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.
- 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 valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-</p>

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

C3 Demographic risks

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

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider 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</p>

Risk	Summary of Control Mechanisms
	<p>Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor that is a tax-raising body.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

Appendix D – The calculation of Employer contributions

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

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

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of future 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 Rate calculated?

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

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

The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets, and
2. at the end of the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 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;
- any different time horizons;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;

- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;
- differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Fund Actuary uses the Hymans Robertson's proprietary ("HEAT") system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this approach provides the most accurate asset allocations between employers that is reasonably possible at present.

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?

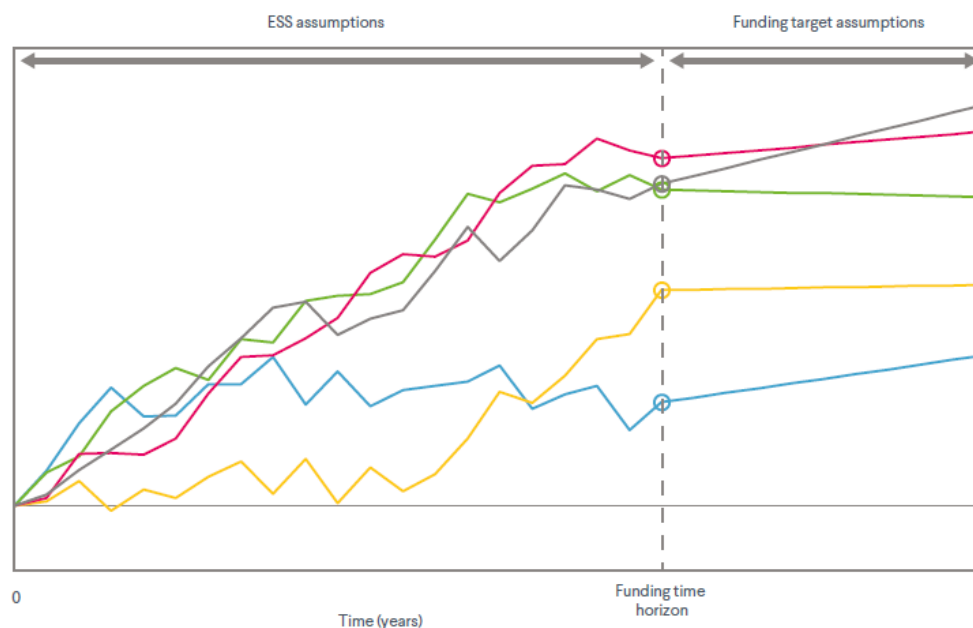
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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 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 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

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

a) Salary growth

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

1. 2.5% p.a. until 31 March 2020, followed by
2. CPI plus 0.5% p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.5%. This is a change from the previous valuation, which assumed RPI p.a. The change has led to a reduction 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% p.a. 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 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 and the Primary and Secondary rates; as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon . The main assumptions will relate to the level of future investment returns , salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target , whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary contribution rate at each valuation .
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee /	A formal promise by a third party (the guarantor) that it will meet any pension

guarantor	obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund
Valuation	A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too.

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LOCAL PENSION BOARD – 2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INVESTMENT STRATEGY STATEMENT UPDATE

Purpose of the Report

1. The purpose of this report is to advise the Local Pension Board of the consultation on the updated draft Investment Strategy Statement (ISS) for the Leicestershire County Council Pension Fund, a copy of which is attached as the appendix to this report, and seek the Board's views as part of the consultation.

Background

2. On 1st November 2016 new Local Government Pension Scheme (LGPS) Investment Regulations became effective. These Regulations removed the restrictions on investments that were formerly in place for the LGPS (none of which had any practical impact onto the Leicestershire Fund) and, in effect, allowed individual Funds complete discretion about where and how to invest. The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement.
3. The Investment Strategy Statement was first agreed by the Local Pension Committee on 17 January 2017. The Appendix is a updated version, however the principals within it have remained the same.
4. At its meeting on 8th November 2019, the Committee considered a report on the draft ISS. The resolutions included approval to undertake consultation on the draft strategy with employers and employee's, ending 31st December 2019. The outcome of the consultation and a final version of the ISS will be brought to the Local Pension Committee for approval at its meeting on 24 January 2020.

Statutory Background

5. The Investment Strategy Statement must include:
 - a) A requirement to invest money in a wide variety of investments;
 - b) The authority's assessment of the suitability of particular investments and types of investments;
 - c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments

6. As with all policy documents it would be possible for the ISS to go into great depth, but this could potentially be counterproductive. Ideally a Pension Fund should have flexibility to be able to take into account changes in the market situation in order to be able to enhance or protect returns.
7. Within the Leicestershire Fund there is clearly defined governance around the setting of a Strategic Benchmark for the Fund by the Local Pension Committee, with this strategy being implemented based on decisions agreed either by the Committee or the Investment Subcommittee. There is the ability to utilise the Director of Corporate Resources' delegated powers, subject to consultation with the Chairman of the Committee, but this is used sparingly and generally only within the parameters provided by the Strategic Benchmark. As a result, it is considered preferable that the ISS is written in such a way that it does not require regular amendment unless there are fundamental changes to the Fund's approach.

Next Steps

8. The report will be updated for relevant feedback received before 31st December 2019, final approval by the Local Pension Committee on 24 January 2020.

Recommendation

9. It is recommended that the Local Pension Board comment on the draft Investment Strategy Statement.

Equal Opportunities Implications

None specific.

Background Papers

17 January 2016 – Local Pension Committee - Draft Investment Strategy Statement

<http://politics.leics.gov.uk/documents/s125629/Appendix%20-%20Draft%20Investment%20Strategy%20Statement.pdf>

Appendix

Draft Investment Strategy Statement

Officers to Contact

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PENSION INVESTMENT STRATEGY STATEMENT

Effective: January 2020

DRAFT

Investment Strategy Statement

1. Introduction and background

The Local Government Pension Scheme (“LGPS”), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement (“ISS” or “Statement”). This is the Investment Strategy Statement (“ISS”) of the Leicestershire County Council Pension Fund (“the Fund”), which is administered by Leicestershire County Council, (“the Administering Authority”). The ISS is composed in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Local Pension Committee (“the Committee”). Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 24th January 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement dated 24th January 2020.

The remaining parts of this statement will cover the following; policies for investments, asset allocation, risks, and our approach to pooling which will appear in the following order.

- Governance
- Fund Objectives
- Fund Management
- Asset Allocation
- Risks
- Asset Investment Pooling
- Responsible Investment

2. Governance

Leicestershire County Council, as the administering authority, has delegated responsibility for the management of the Fund to the Local Pension Committee (Committee). The Committee has responsibility for establishing an investment policy and its ongoing implementation.

Members of the Pension Committee have a fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are the members of the Fund who are entitled to benefits (pensioners, previous and current employees) and the employing organisations. Other key stakeholders are the beneficiaries of the employing organisations services, for example local Council Tax payers.

Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills take decisions affecting the Fund. The Members of the Pension Committee will ensure they receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.

The Chief Financial Officer of Leicestershire County Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, issues of compliance with internal regulations and controls, budgeting and accounting.

3. Fund Objectives

The primary objective of the Fund is to provide pension and lump sum benefits as and when they fall due for members or their dependents.

The funding position will be reviewed triennially through an actuarial valuation, or more frequently as required. Payments will be met by employer contributions, resulting from the funding strategy, employee contribution or financial returns from the investment strategy.

The funding strategy and investment strategy are therefore inextricably linked. Leicestershire County Councils funding strategy can be found at:
<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2019/5/1/funding-strategy-statement-v2.pdf>

Our Committee believes in a long term investment strategy with regular reviews, usually annually in the form of the asset allocation review. We aim to maximise returns from the Fund whilst maintaining an acceptable level of risk.

The Committee sets an investment strategy that focuses on factors including, but is not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Fund has a number of investment beliefs that are taken into account when agreeing an asset allocation policy.

- The long term nature of LGPS liabilities allows for a long term approach to investing.
- Liabilities influence the asset structure; funds exist to meet their obligations.
- Risk premiums exist for certain investments, taking advantage of these can improve investment returns.
- Markets can be inefficient, and mispriced for long periods of time, therefore there is a place for active and passive investment management.
- Diversification across investments with low correlation reduces volatility, but over diversification is both costly and adds little value.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise from market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor.

4. Fund management

The Committee aims to structure the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is set for each employer to meet the cost of future benefits accruing. Where appropriate the fund may undertake due diligence exercises on certain employers where their ability to meet liabilities may be in question. The Fund will work in partnership with these employers to protect other Fund employers from the consequences of default.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the

appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed annually. Information available from several sources, including the triennial actuarial valuation, will be used to guide the setting of the investment strategy, however, the strategy does not look to match assets and liabilities in such a way that their values move in a broadly similar manner. Asset / liability matching in this way would lead to employers' contribution rates that are too high to be affordable, so there will inevitably be volatility around the funding level (i.e. to ratio of the Fund's assets to its liabilities).

It is recognised that the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit have a role to play in the setting of investment strategy. As the Fund grows more mature it is likely that a more defensive investment strategy will be adopted, whereby a lower level of return is considered an attractive 'trade off' as it should be achieved at a lower level of volatility. These issues do not currently have a material influence on the investment strategy adopted.

In general terms the investment strategy approved will be a blend of asset classes that are diverse enough to dampen some volatility (e.g. if equity markets fall, other assets may rise), without being so diverse that the strategy becomes unmanageable and costly. Expected long-term returns, levels of volatility and correlation in the performance of different asset classes will all have a role to play in setting the strategy.

By their very nature investment markets are unpredictable and it is impossible to have any certainty around future returns and volatility, so the setting of any investment strategy cannot be more than an imprecise way of arriving at an 'appropriate' split of assets. As strategy is, however, the biggest driver of future investment returns it is important that sufficient time is spent in designing and implementing a strategy that is sensible for the Fund.

The Fund's actual allocation is monitored by Officers and reported to Committee on a regular basis to ensure it does not notably deviate from the target allocation.

5. Asset Allocation

5.1 Investing in a variety of asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. These asset classes are only examples of the types of investments that may be held and are not intended to be an exhaustive list. The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks.

Asset class	Target Allocation Jan 2019 % Lower & Upper limits	Target Allocation Jan 2020 % Lower & Upper limits	Notes
Listed Equities	40.0 44.0		
Private equity	4.0 4.0		
Total Equity	44.0 48.0		
Index linked bonds	7.5 7.5		
Infra / Timberland	9.0 9.0		
Property	10.0 10.0		
Real assets	26.5 26.5		
Targeted Return	9.5 11.5		
Emerging Market Debt	2.5 2.5		
Global credit	7.5 7.5		
Opportunity Pool	4.0 8.0		
Alternatives	23.5 29.5		

The Committee reviews the nature of Fund investments on a regular basis, with reference to suitability and diversification. The Committee seeks and considers written advice from our advisors for such a review. If, at any time, an investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability.

The Fund's target asset allocation as at January 2019 and January 2020 is set out below. As far as is practical and cost-effective, attempts will be made to maintain an actual asset allocation split that is close to the target strategy.

5.2 Target Asset Allocation [UPDATE WITH JAN 20 ALLOCATION]

As at January 2019, the expected return of this portfolio allocation was 3.4% p.a. above Consumer Price Inflation.

5.3 Restrictions on investment

Given that the Fund's approach to setting asset allocation policy takes account of the various risks involved as an integral part of the decision-making process, it is not felt necessary to impose any specific investment restrictions.

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

5.4 Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The

Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

6. Risks

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. Officers and investment consultants manage, measure, monitor and (where possible) mitigate the risks being taken, in order that they remain consistent with the overall level of risk that is acceptable to the Committee. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The overall risk is that the Fund's assets are insufficient to meet its liabilities. The Funding Strategy Statement calculates the value of the Fund's assets and liabilities and with the triennial valuation sets out how any difference in value will be addressed.

The principal risks affecting the Fund are set out below. They are grouped into 3 areas, funding risks, asset risk and other risk. The Fund's approach to managing these 3 types of risks are explained after each section.

6.1 Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost to the Fund of providing benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and / or investment managers, possibly compounded by financial contagion, resulting in an increase in the cost of meeting the Fund's liabilities.

6.11 How we manage funding risks

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set after considering expected future returns from the different asset classes, and considers historic levels of volatility of each asset class and their correlation to each other. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

The Committee also seeks to understand the assumptions used in any analysis, so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

6.2 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

6.21 How we manage asset risks

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target.

The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk.

The Fund is currently cashflow positive, in that contributions from employees and employers are larger than benefits being paid. The Fund invests across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term. Whilst the fund has a growing proportion of less liquid assets we have a large proportion of highly traded liquid assets that can be sold readily in normal market conditions so that the Fund can pay immediate liabilities.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk

analysis. This currency risk is managed through a variable currency hedging programme designed to take account of both the risks involved with holding assets that are not denominated in sterling and the perceived value of overseas currencies relative to sterling.

Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing multiple investment managers and by having a large proportion of the Fund's equities managed on a passive basis. The Committee assess the investment managers' performance on a regular basis and will take steps, including potentially replacing one or more of the managers, if underperformance persists. The Committee also recognises that individual managers often have an investment 'style' that may be out-of-sync with market preference for prolonged periods, and that this could lead to lengthy periods of underperformance relative to the relevant benchmark. If the Committee remain convinced by the quality of the investment manager, and the fact that their views remain relevant, underperformance will not necessarily lead to their replacement.

6.3 Other provider risk

- Transition risk - The risk of incurring costs in relation to the transition of assets between managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

6.31 How we manage these other risks

The Committee expects Officers to monitor and manage risks in these areas through a process of regular scrutiny of the Fund's investment managers and audit of the operations it conducts for the Fund. In some cases, the Committee will have delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace an investment manager should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

7. Pooling

Government instigated ‘pooling’ of pension fund investments in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme assets. Pension funds formed their own groups and eight asset pools were formed, which are now all operational.

The Fund is a participating scheme in the LGPS Central Pool (Central). The proposed structure and basis on which the LGPS Central Pool will operate was set out in the July 2016 submission to Government.

The LGPS Central Pool consists of the LGPS funds of: Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, the West Midlands Integrated Transport Authority and Worcestershire.

Collective investment management offers the potential for substantial savings in investment management fees, increased opportunities for investor engagement and access to a shared pool of knowledge and expertise.

The eight administering authorities of the pension funds within the LGPS Central Pool are equal shareholders in LGPS Central Limited. LGPS Central Limited has been established to manage investments on behalf of the Pool and received authorisation from the Financial Conduct Authority in January 2018.

7.1 Assets to be invested in the Pool

The Fund’s intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. LGPS Central has been operating since 1st April 2018.

The Fund transitioned its first assets to Central, as part of the Global Equity Active Multi-Manager Fund, at the end of February 2019. The Fund contributed approximately 15% of the overall £2.1 billion assets managed in the Global Equity fund. The Fund has since transferred funds into Central’s Global Emerging Markets Fund and also into the first vintage of the Private Equity fund.

Central have a prioritised product development pipeline which takes into account the relative funds available from the Pool’s participants and interest to invest into each product type.

8. Responsible Investing

8.1 Overview and background

Responsible investment is an approach to investment that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable. It is recognised that ESG factors can influence long

term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to ESG in two key areas:

- Sustainable investment / Environmental and social factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

In combination these two matters are often referred to as 'Responsible Investment', or 'RI' and this is the preferred terminology of the fund.

8.2 Principles for Responsible Investment (PRI)

The Principles for Responsible Investment are recognised as the global standard for responsible investment for investors with fiduciary responsibilities.

The Fund declares its support for the PRI and it's 6 principles listed below.

Signatories' commitments adhere to the following including annual reporting to the PRI.

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

We are aware of our RI duties and ultimately aim to balance our approach with the cost to LGPS employers, who in the main are providing social and environmental services to the local population.

8.3 Responsible Investing and LGPS central

In addition to support for the PRI, the Fund's investments that LGPS Central manages and advises upon are subject to Central's Responsible Investment and Engagement (RI and E) Framework. The RI and E framework can be found at:

<https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf>

Critical to the framework is Central's Investment beliefs and RI beliefs, which we support and are summarised below:

Long termism: A long term approach to investment will deliver better returns and the long term nature of LGPS liabilities allows for a long term investment horizon.

Responsible investment: Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Company and its investment managers.

Diversification, risk management and stewardship: Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long term through widespread stewardship and industry participation.

Corporate governance and cognitive diversity: Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

Fees and remuneration: The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low return environment. Fees and remuneration should be aligned with the

long term interests of our clients, and value for money is more important than the simple minimisation of costs.

Risk and opportunity: Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

Climate change¹: Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible.

¹By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to a number of stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

LGPS Central is a signatory to the PRI and as such the Fund's investments via Central will be in line with the principles outlined earlier in this report. In addition, we have a pipeline of Fund transitions to Central as well as a number of advisory mandates which benefit from Central's RI approach and resource.

8.4 The Funds current ESG approach

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

We also recognise that applying these Principles may better align investors with broader objectives of society.

The Committee takes RI matters seriously and will not appoint any manager unless they can show evidence that RI considerations are an integral part of their investment decision-making processes.

The Committee understand the Fund is not able to exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Responsible Investment has largely been to delegate this to their underlying investment managers as part of their overall duties.

8.5 The Fund's planned ESG roadmap

The funds outside of Central's direct management will be transitioned over a period of years. This could be for an extended period of time, due to the cost implications of a transition. The Fund has access to a number of RI products recently procured by Central which we will trial and help guide our approach to RI whilst we transition funds to Central.

8.6 The exercise of rights (including voting rights) attaching to investments

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

The Committee supports the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the LGPS Central Pool and any directly appointed fund managers to comply with the Stewardship Code as published by the Financial Reporting Council.

Prepared by:
xxxxxxxxxxxxxx

For and on behalf of the Local Pension Committee of the Leicestershire County Council Pension Fund.



LOCAL PENSION BOARD

2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

THE PENSIONS REGULATOR – “DEEP DIVE” FINDINGS

Purpose of the Report

1. The purpose of this report is to inform the Pension Board of The Pension Regulator findings, following their “deep dive” into the administration of ten Local Government Pension Funds.

Background

2. Every November, the Pension Regulator (TPR) instructs all LGPS Funds to complete its national survey. The results of the 2018 survey caused some concern nationally on the governance and administration of the LGPS.
3. Following the 2018 survey, TPR then chose ten Funds at random, doing a “deep dive” into these Funds. The Leicestershire Fund was not one of the ten funds chosen.
4. In October 2019 TPR published its findings in the report Governance and Administration risks in public service pension schemes, covering nine main areas, and made recommendations for each of these.
5. A summary of the highlights TPR detailed to help Funds were;

“Good governance and administration are essential to thriving schemes and this report includes recommendations that will make an impact to all public service schemes – not just local government pension funds. Real-life case studies illustrate some of the good practice we found, along with suggestions for improvement”.

Findings include:

- Good quality data and record-keeping standards underpin all aspects of successfully running a fund – and these areas should be treated as a priority.

- A separation should be maintained between the fund and Local Authority to avoid overreliance on the Local Authority's policies and procedures.
- Many funds we spoke to lack a strong succession planning procedure – leaving the fund open to risk if there were unexpected departures.
- The pension funds clearly benefit from having an engaged s.151 officer directly involved.

6. The nine main areas detailed in the report are as follows. To avoid repetition, this report does not duplicate the detail in the Regulator's report (attached as Appendix A).

- Record keeping
- Internal controls
- Administrator
- Member communications
- Internal Dispute Resolution Procedure (IDRP)
- Pension Boards
- Employer and contributions
- Cyber Security
- Internal fraud and false claims

7. Implications for the Leicestershire Fund

Generally, the Pension Manager is comfortable with most of the areas listed and is working towards improvements in these areas but highlights initial areas where further investigation need to be made.

8. Record keeping

The Leicestershire Fund's common and conditional data scores are detailed in the table below;

	2018	2019
Common data	94.0%	96.9%
Conditional data	88.7%	95.5%

The improvement in both common and conditional data results are positive. The Pensions Manager is working through the full results to see the areas of improvement.

The Fund's actuary has confirmed the data provided by the Fund for the valuation, was of a very high standard.

9. Internal Dispute Resolution Procedure (IDRP)

There is already a detailed IDRP process, but the Fund is developing a clear internal policy on how to handle complaints, including escalation to senior managers.

10. Employers and Contributions

Greater understanding of the financial positions is required to better manage a risk-based approach to employers. This process will commence following the draft results of the triannual actuarial valuation.

11. Cyber Security

A review of cyber security is suggested. This has been added to the Fund's risk register.

Internal Audit

12. Leicestershire County Council's internal audit team will carry out separate audit work streams throughout 2020/21 on the nine areas. Some of these areas may be grouped where common themes are found. The audit may compliment areas that are already being reviewed in 2019/20.

The Pensions Manager has agreed with the Audit Manager to develop this during the planning of the 2020/21 work.

Recommendation

13. It is recommended that the Board notes The Pension Regulator's "deep dive" findings.

Appendix

The Pension Regulator – Governance and administration in public service pension schemes – an engagement report.

Equality and Human Rights Implications

None specific

Officers to Contact

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Governance and administration risks in public service pension schemes: an engagement report

Findings from our engagement with 10 local government funds, selected from across the UK, to understand scheme managers' approaches to a number of key risks. As part of each engagement we fed back on good practice and suggested improvements that could be made.

The engagement took place between October 2018 and July 2019 following the results of our annual governance and administration survey, in which we identified that improvements being made across the Local Government Pension Scheme (LGPS) had slowed down. We were pleased to note that scheme managers were already sharing good practice with their LGPS peers and hope that working with us offered scheme managers a new perspective on their funds.

We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.

It is not a comprehensive evaluation of the funds' operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).

Glossary of terms

Term	Description
CETV	Cash Equivalent Transfer Value, a valuation of a members benefit entitlement that can be transferred to another scheme.
FCA	The Financial Conduct Authority, which regulates firms in the financial sector including IFAs.
Firm	A business in the financial sector carrying out activities that require authorisation from the FCA.
Fund	A locally administered element of a wider pension scheme.
IFA	Independent Financial Adviser, a person with FCA authorisation to advise people about financial decisions.
Member	A person who has paid into and expects to receive or is receiving a benefit from a pension scheme.
PAS	Pension Administration Strategy, a document detailing roles and responsibilities as well as penalties for non-compliance with duties to the fund.
Pension Board	A body that supports and advises the scheme manager.

Pension committee	A body running a pension scheme with the delegated authority of the scheme manager.
PSPS	Public Service Pension Scheme
Saver	A potential beneficiary of a pension scheme, whether or not they are a member.
s.151 officer	A senior member of staff at a Local Authority. Controls resourcing across the Authority, including for the running of the local element of the Local Government Pension Scheme.
Scheme	A pension scheme which may have separate funds within it.
Scheme manager	The person or body legally responsible for the operation of a PSPS.
SLA	Service Level Agreement, an agreed and measurable level of quality usually forming part of a contract.

Executive summary

Overall we found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key improvement areas are summarised below. These findings align with the findings from our [annual public service governance and administration survey](https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#b856d02f01714192895cdb91e84a4410) (<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#b856d02f01714192895cdb91e84a4410>)

Key person risk: While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.

Pension boards: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

Fraud / scams: We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.

Employers: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.

The following sections detail our findings and recommendations, together with case studies we believe will be helpful to the PSPS community.

Key findings and associated case studies

Area of focus: Record-keeping

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#e6e12897999d45e5bc8ead7983fd15b4>)

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. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme

regulations, processing incorrect transactions and paying members incorrect benefits.

Findings	Recommendations
<p>Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete.</p> <p>Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods.</p> <p>They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.</p>	<ul style="list-style-type: none">● Scheme managers should be aware of how the member data they hold is measured. 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. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found.● Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.

Record-keeping case study 1

One scheme manager we engaged with identified concerns with the accuracy of both the common and scheme specific data it held about the fund members. Following engagement with TPR, the scheme manager created and implemented a robust data improvement plan to drive up record-keeping standards.

One of the data areas of concern for the scheme manager was the number of missing member addresses - this resulted in data scores of 60-80% for common and scheme specific categories. After a review of available resources, the scheme manager undertook a tracing exercise and within a short period of time was able to locate and carry out existence checks on over 90% of the deferred members without known addresses. The exercise also involved reviewing the way active and pensioner members are communicated with to ensure the fund holds the correct contact details for them.

This is an example of a scheme manager taking a holistic approach to improving its record-keeping standards. It gave consideration to the resource available so the project achieved a positive result while providing good value for money. The scheme manager has established that having a data improvement plan which is regularly reviewed will improve oversight of the actions it needs to take and the associated deadlines.

Record-keeping case study 2

The scheme manager of a fund we engaged with openly communicated with us about the challenges it faced in producing Annual Benefit Statements. We were told delays were caused by employers not providing member data to the scheme manager on time, and there were issues with the accuracy of some member data provided by employers.

Having considered its operational structure, and our expectations on governance and administration, the scheme manager reorganised itself internally. With the support of the s.151 officer, the scheme manager developed and implemented a robust data improvement plan which could be measured.

As well as creating a data improvement plan the scheme manager also strengthened its pension administration strategy, outlining responsibilities and the timeframes for action. This document made

the consequences of non-compliance by employers clear, such as financial penalties. The scheme manager has also introduced regular employer forums to help further raise standards with employers.

As a result the scheme manager has seen a marked improvement in employer engagement and the quality of member data it holds. It continues to actively monitor both data quality and employer compliance.

Area of focus: Internal controls

Code of Practice 14 – Governance and administration of public service pension schemes

<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#d4afe35ae78c404688a62e103fd192c5>

The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

Findings	Recommendations
There were a range of approaches to identifying, monitoring and mitigating risks to the funds we engaged with. Some funds had detailed risk management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks.	<ul style="list-style-type: none">● A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board.● The scheme manager should take a holistic view to risks and understand how they are connected.● The pension board should have good oversight of the risks and review these at each pension board meeting.

We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role.

Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls.

- Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.
- The scheme manager should ensure all processes are documented and reviewed on a regular basis.
- Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.

Internal controls case study 1

A scheme manager has reviewed the approach it takes to maintaining a risk register, having found the approach it was taking could be more effective.

The scheme manager developed a high level document which identifies a wide range of risks with all members of the senior leadership team having a role in the identification and scoring of potential risks.

This document is supported by detailed 'risk maps' which provide:

- (i) a description of the identified risks
- (ii) the person responsible for overseeing the risk
- (iii) how the risk is scored and
- (iv) details of the mitigating actions and controls in place

Action points identified have clear timescales for completion with an identified person being responsible for delivery.

The full risk register is made available to the pension committee and pension board each time they meet and its review is a standing item on both agendas. This allows for constructive oversight and challenge, along with a clear process to act on feedback provided.

This is an example of a fund which is engaged at all levels of seniority to identify and mitigate risks to good saver outcomes. There are clear, identified processes in place along with strong oversight of the work being done. This approach was devised before TPR began to engage with the scheme manager and demonstrates a clear desire to improve.

Internal controls case study 2

A scheme manager has developed two risk registers, one for the pension committee (which acts as delegated scheme manager) and a separate, shorter, register for the pension board.

The risk register for the pension board had been reduced in size and detail at the request of the pension board. We have concerns the reduced risk register will prevent the pension board members from having full oversight of all the fund's risk and applying their knowledge and understanding in an appropriate way as they will not be fully conversant with the facts surrounding each risk.

The pension board also only reviews the risk register twice a year. We believe the risk register should be a standing item on the agenda for both the pension committee and the pension board and reviewed at each meeting – ie it will be reviewed at least each four times a year by each body.

We gave feedback to the scheme manager about our concerns and recommendations, and would encourage funds that adopt similar practices to consider how they can make more effective use of the pension board and improve the engagement levels of its members.

Area of focus: Administrators

Code of Practice 14 – Governance and administration of public service pension schemes

<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#458801ec082a49e0bb494b6ff7480d12>

Good administration is the bedrock of a well-run fund. A scheme manager should work well with its administrator or administration team, and ensure the right people and processes are in place to ensure members' benefits are administered to a high standard.

Findings	Recommendations
<p>Better performing scheme managers have a close relationship with their administrator, whether they use a third party provider or an internal team. In these instances 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.</p> <p>Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both</p>	<ul style="list-style-type: none">● Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met.● Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.● 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

<p>participating employers and members.</p> <p>There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund.</p>	<p>effectively challenge reports being provided.</p> <ul style="list-style-type: none">● Scheme managers should hold regular meetings with their service providers to monitor performance.
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Administrator case study 1

A scheme manager had entered into a outsourcing contract with an administrator. The administrator's performance over a period of time was unsatisfactory, and targets and SLAs were not consistently met. Despite the council's finance director personally intervening with the administrator, matters were not improved to acceptable levels and penalty clauses were invoked.

The scheme manager decided to terminate the contract and review alternative administrative options, with a key aim of including more visibility, which the previous contract type arrangement had not provided.

The scheme manager decided not to take the administration back in house, but to enter into a third option, a shared service partnership with another administrator. This is charged on a shared cost per member basis. The new administrator also provides administrative services for a few other public service funds. The scheme manager is now part of a collaborative board and engages regularly with other scheme managers, has better visibility and good reporting functionality which now enables easy monitoring of the administrator's performance.

Data quality improvements were recognised as a key focus for the new administrator on its appointment. The scheme manager developed and put in place a robust data improvement plan with the new administrator and has made considerable improvements in its data quality scores in a short period of time. They are now using the

plan as a living document to continue to target the areas needing improvement.

Administrator case study 2

One of the scheme managers had appointed a third party administrator using a partnership agreement, rather than a commercial contract. This demonstrates one of a number of approaches taken by scheme managers to secure administration services.

The scheme manager has established a clear set of objectives for the administrator and receives monthly reports about whether these are being met. The reports are shared with the pension board. Additionally, at each pension board meeting a representative of the administrator is present. This allows the pension board members to directly question the administrator about the work it is doing on behalf of the scheme manager and ensure that good saver outcomes are achieved.

Even when a scheme manager uses an outsourced administration service it remains liable for the work done on its behalf. This example demonstrates positive steps taken by a scheme manager to ensure it has effective oversight and can hold an administrator to account.

Administrator case study 3

A scheme manager was informed that its third party administrator intended to restructure in order to improve the level of service it provided to its clients. The administrator was confident that the restructure would not affect its business as usual work and the scheme manager took comfort from this without seeking more detailed assurances.

The restructure did not go as planned, which led to delays in member data being processed and SLAs not being met for around six months. The scheme manager has since increased the number of both operational and strategic meetings it holds with the administrator to combat the declining performance of the administrator.

As part of this work the scheme manager has set clearly documented expectations and provided priorities to the

administrator to minimise the number and impact of poor saver outcomes. The scheme manager has now developed new ways of working with the administrator to ensure it probes the administrator's plans in more detail in the future.

This is an example of a scheme manager placing excessive reliance on assurances from an administrator without seeking evidence that supported the assurances. Robust contract management is important and will help scheme managers to identify upcoming risks to savers and to build a strong understanding of the information being provided.

Area of focus: Member communication

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#d4afe35ae78c404688a62e103fd192c5>)

The law requires scheme managers to disclose information about benefits and scheme administration to scheme members and others. This allows savers to understand their entitlements and make informed financial decisions.

Findings	Recommendations
A number of scheme managers are currently reviewing the documents they send to savers. 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	<ul style="list-style-type: none"> Information sent to members should be clear, precise and free from jargon. There should be senior oversight of communications sent to members and prospective members. It is often helpful for scheme managers to measure the effectiveness of their communication with

<p>enlisting the assistance of non-technical staff to check readability and whether it is comprehensive.</p> <p>Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.</p>	<p>savers, eg measuring website traffic and running surveys.</p>
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Member communication case study 1

A scheme manager had previously delegated responsibility for communication with members to its third party administrator. However, it had a number of concerns about the quality of the service being provided, which included how members were kept informed and the level of detail provided.

The scheme manager took the decision to change its administrator and has now taken greater control over the communication with members. This has led to the development of a new pension administration strategy, with clear expectations around member communications being set and monitored.

A new website is being developed and the scheme manager recognises that having a clear online presence is an important method of communicating with current and potential members.

It is important to communicate with members, potential members and other relevant savers in a clear way. The information provided by a scheme manager will be used by members to make important decisions about their financial affairs. This is an example of a scheme manager looking to improve the member experience through revising the way it communicates.

Member communication case study 2

We engaged with a scheme manager that has developed a detailed communication strategy, which covers the content, frequency, format and methods of communicating. The scheme manager actively promotes the benefits of joining the fund to prospective members and through the participating employers.

Two people are responsible for different aspects of member communications, with all material being formally approved by the scheme manager before being used. The scheme manager has developed a wide range of accessible materials for savers, including a website, a wide range of information booklets, and newsletters.

Members are informed clearly of how they can raise any queries or concerns about the operation of the fund. This includes members being able to go to the scheme manager's offices in person to discuss any queries with a suitable member of staff.

The scheme manager conducts annual surveys of its members, publishing the outcomes on its website and in its annual report. It uses this information, together with complaint trends, to identify how it can provide a better service to savers.

Area of focus: Internal Dispute Resolution Procedure (IDRP)

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#e6e12897999d45e5bc8ead7983fd15b4>)

Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law as set out in the Code to help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.

Findings	Recommendations
Some scheme managers have clear procedures in place for recording, and learning from, complaints	<ul style="list-style-type: none"> There should be a clear internal policy on how to handle complaints, including escalation to

and disputes they receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries.

Not all the complaints procedures and IDRP's we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers.

Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like is not known this will affect its ability to put things right.

suitable senior members of staff.

- 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.

IDRP case study 1

All the scheme managers we engaged with operate a two stage IDRP, where the first and second stages are looked at by people who are independent of each other.

Initially, one of the scheme managers we engaged with didn't have oversight of complaints entering the first stage of the IDRP. These complaints were dealt with by employers as they were not considered to be issues about the fund or an in-house administration matter. This meant the scheme manager did not have full oversight of the first stage complaints and therefore could not

identify whether there were any trends or patterns that needed addressing, eg an employer training issue.

Following engagement as part of the cohort work, we recommended that the scheme manager develop greater oversight of the work being done on its behalf. The scheme manager now recognises this is an area where it should improve and has amended its processes to ensure it is aware of how member outcomes are being managed when first stage IDRPs complaints are received.

IDRP case study 2

Like all other funds we engaged with, this scheme manager operates a two tier IDRPs. However, the scheme manager stood out in this instance for the detailed and methodical manner in which it records complaints that are raised.

All complaints are recorded in a single log which detail how it progresses, potentially from an initial concern through to a finding issued by the Pensions Ombudsman. This allows the scheme manager to analyse complaint trends and the learning points are used to improve the operation of the fund.

Additionally, all actions relating to complaints have a clear owner. This allows for strict quality control and helps ensure complaints are dealt with as soon as possible.

We would encourage all scheme managers, where they have not already done so, to adopt a detailed and auditable approach to monitor complaints and compliments received through all channels.

Area of focus: pension boards

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#e6e12897999d45e5bc8ead7983fd15b4>)

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function.

Findings	Recommendations
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Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. 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 to assist them with the operation of the fund. 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.

The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.

- 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.
- Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.
- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.
- 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.

- The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.
- Pension board members should be fully engaged and challenge parties where appropriate.

Pension board case study 1

One scheme manager spoke to us about the challenge it has faced regarding attendance at pension board meetings, and ensuring the pension board has the required level of knowledge and understanding. At one time it had to reschedule a meeting of the pension board because so few people attended the meeting.

Since then the scheme manager has changed its policy on pension board meetings. One pension board member with a low attendance record has been removed and replaced with a more engaged representative.

The scheme manager is also reviewing how it records the training that pension board members attend. Currently, training is recorded at a high level and there is no clear method of identifying training needs, although informal discussions take place between the scheme manager and individual pension board members.

The scheme manager has recognised that it needs to better understand how pension board members are meeting their obligation to have an appropriate level of knowledge.

Pension board case study 2

Another scheme manager we engaged with has reviewed how the pension board operates and decided to appoint an independent chair. While the chair does not have voting rights, this person lends their expertise to the running of the pension board to ensure meetings run effectively.

Having an independent chair is not compulsory but in this instance is a positive example of a scheme manager being aware of the needs of the local pension board and taking steps to ensure it operates effectively.

The scheme manager has also developed a strong working relationship with the chair, holding a number of informal meetings outside of the formal pension board meetings. This working practice allows the scheme manager to ensure the pension board receives all the information it needs and that the scheme manager can comprehensively answer any anticipated questions.

Area of focus: Employers and contributions

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#e6e12897999d45e5bc8ead7983fd15b4>)

Contributions must be paid to the scheme in accordance with scheme regulations. Scheme managers are also reliant on employers to provide accurate and timely member data, which is required for the effective administration of the scheme.

Findings	Recommendations
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the	<ul style="list-style-type: none"> ● 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. Red, Amber, Green reporting often provides extra focus. ● Employer solvency should be considered on an

payroll company won't engage with a body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems.

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. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide

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.
- Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations.
- 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.
- Scheme managers should understand which employers have not provided any security for unpaid contributions and

<p>range of security types, generally those with larger funds.</p> <p>Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.</p>	<p>consider what appropriate steps can be taken to secure fund assets.</p> <ul style="list-style-type: none"> Where security is in place, Scheme Managers should have a policy on when the security should be triggered.
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Employer case study 1

Having a robust method for reviewing employer risk is a high priority for one of the scheme managers we engaged with. It has developed a process to maintain oversight of the various participating employers in the fund, covering a range of topics from the provision of member data to the strength of the employer covenant.

Each employer is risk rated and the risk levels are regularly monitored. This allows the scheme manager to gain advance notice of potential problems so it can take steps to mitigate the risks and to provide comfort that guarantors are in a position to pay additional amounts to the fund if a call on the guarantee is made.

This information is also used to inform employers of any failures to meet their obligations to the fund at an early stage, identifying action points they need to carry out.

Employer case study 2

Scheme manager 1 has decided to incorporate a charging policy for seeking the reimbursement of costs caused by an employer's failure to comply with its obligations into admission agreements. This means the scheme manager has a clear policy in place that all employers will be aware of when they start to participate in the fund.

Not all scheme managers have approached the issue of employer compliance in the same way. Scheme manager 2 has a small portfolio of participating employers and relies on having a good relationship with them in order to achieve compliance. This scheme manager also considers that as most employers are supported by central government it need not be concerned with affordability.

We were concerned about the lack of formal processes to ensure compliance. While the scheme manager has not encountered difficulties to date, we have recommended that it makes some improvements. Additionally, all scheme managers should remember that, should a participating employer suffer an insolvency event, any missing payments due to the fund will need to be paid by someone and there should not be an over-reliance on the taxpayer and other employers.

Area of focus: Cyber security

Guidance: Cyber security principles for pension schemes
<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/cyber-security-principles-the-pensions-regulator>

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. Scheme managers need to take steps to protect their members and assets accordingly.

Findings	Recommendations
<p>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.</p> <p>Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security</p>	<ul style="list-style-type: none"> ● 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. Scheme managers should consider physical security as well as protection against remote attacks. ● Where cyber security is maintained by the Local

<p>did not appear on the risk register before our engagement with the scheme manager.</p> <p>Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in place to test the effectiveness of both cyber security and resilience methods.</p>	<p>Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met.</p> <ul style="list-style-type: none"> ● Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.
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Cyber security case study 1

A scheme manager we engaged with identified cyber security as one of the top risks to the fund. It demonstrated a good awareness of the processes put in place by the Local Authority and carries out testing of these processes.

The scheme manager had recently tested both its cyber defences and the wider business continuity plan. As a result it is confident it can provide a good service to savers in the event of a wide variety of disaster scenarios.

As part of our engagement we also found the scheme manager has processes in place to assess the adequacy of steps taken by its service providers to protect member data. This gives the scheme manager comfort that member data will be secure when being handled by other bodies.

Although the scheme manager has not implemented its own controls it has rigorously reviewed the process put in place by the Local Authority. It has satisfied itself that those processes are of a sufficient standard to protect the fund and its savers.

Cyber security case study 2

A scheme manager had not considered the importance of cyber security until we engaged with them as part of this work. The

scheme manager was reliant on the security measures put in place by the council but did not engage on the topic, so it was not clear how it was affected.

Cyber security did not appear on the fund's risk register and the scheme manager was not actively considering the dangers of a successful cyber attack on the fund.

Following our engagement, the scheme manager has developed its understanding of the risks surrounding cyber security. It now records the risk on its risk register and as part of the Local Authority's strategy all staff will receive mandatory training in cyber security.

The scheme manager has also started engaging with third party service providers to ensure they also have robust cyber security and data protection procedures in place. This gives the scheme manager better oversight of how member data is protected when not under the scheme manager's direct control and marks a significant improvement in how this risk is monitored and mitigated.

Area of focus: Internal fraud and false claims

Code of Practice 14 – Governance and administration of public service pension schemes

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice#015b082d7b984f94a598a6377fae1b29>)

Schemes without strong internal controls are at greater risk. This includes having a clear separation of responsibilities and procedures which prevent a single member of staff from having unfettered access to scheme assets. Strong internal controls, particularly over financial transactions, also help mitigate the risk of assets being misappropriated.

Findings	Recommendations
Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and	<ul style="list-style-type: none">● Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.

external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures.

Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity.

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, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.

- 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.
- Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.
- When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.

Fraud case study 1

A scheme manager has worked with its administrator to put in stringent measures to prevent fraudulent activity. In addition to participating in the National Fraud Initiative, it does regular life certificate exercises as part of the fund's policy, checking mortality

and addresses. Where doubts are raised the scheme manager will suspend payments pending clarification.

Many of the members of the fund are now non-resident in the UK, which provides challenges to the scheme manager in locating members. The scheme manager has adopted an innovative use of technology for the foreign domiciled members by arranging video calls to speak to the member who must show their passports to provide their identity and confirm personal details.

The scheme manager demonstrated good awareness of the risk of internal fraud by connected persons, and there is clear segregation of duties. Additionally the workflow processes being system driven provide automatic checks with different people checking and authorising the processes. Suspicious payments are immediately reported to senior management to check.

Fraud reporting policies are clear, and internal auditors are involved whenever there is suspicion of a fraudulent activity. The fraud reporting goes immediately to directorship and chief executive level.

Fraud case study 2

In this instance the scheme manager has strong controls in place to identify potential frauds against the fund assets.

The scheme manager works with the National Fraud Initiative to identify instances of possibly fraudulent claims for a benefit from the fund. The scheme manager's work in this area is supplemented by its involvement with the 'Tell Us Once' initiative and the use of a third party agency to help identify when beneficiaries have passed away.

The scheme manager also demonstrated an awareness of the risks associated with members and other potential beneficiaries being overseas. It carries out existence checks on these people as well as those residing in the United Kingdom.

When a payment is due to be made, the scheme manager has introduced a vigorous set of controls. This has led to a clear separation of duties and the requirement for payments to be independently authorised, reducing the risk of fund employees misappropriating fund assets.

Conclusion

We've outlined some areas of good practice in this report, and also some areas where we remain concerned and expect scheme managers to improve where appropriate. Overall, we noted:

- 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. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose.
- There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.
- Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes.
- Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.
- 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. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.
- Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager

should understand how a risk materialising will impact on other areas of governance and administration.

- Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly.
- Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. We encourage such action.



LOCAL PENSION BOARD

2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LOCAL GOVERNMENT PENSION SCHEME (LGPS) – TRANSFER OF PENSION RIGHTS

Purpose of the Report

1. The purpose of this report is to note some minor changes to the Leicestershire Local Government Pension Scheme regarding the acceptance of transfer values from certain pension scheme arrangements.

Background

2. The current Fund rules on the acceptance of transfer values are detailed in the report to Employment Committee dated 21 September 2009. This is attached as Appendix A.

Under the Local Government Pension Scheme rules transfer values can be accepted into the scheme from a variety of different types of scheme. These are detailed in the report dated 21 September 2009 and remain;

- Transfers from another Local Authority pension scheme, known as Inter Fund adjustments.
 - Transfers from other members of the Public-Sector Transfer Club.
 - Transfers from other approved pension schemes other than the above.
3. Currently the Fund allows transfers in from other Local Authorities (known as Inter Fund adjustments) and Public-Sector Transfer Club schemes. Examples of Public Sector Club schemes are; Civil Service, NHS, Teachers, Police, Fire. The Fund does not accept transfers from other schemes, including Non-Club schemes.
 4. As Public-Sector pension schemes have developed over recent time, some Public-Sector Transfer Club schemes now also provide Non-Club transfers for some of their scheme members. This evolving change in public sector pensions has resulted in some confusion on what can or cannot be accepted by Local Government Pension Funds.

5. This report is to inform the Board of some minor changes approved by Pensions Committee on the 8 November 2019, designed to reduce employer risk, and to avoid any possible confusion in regards transfers in.

What transfers are accepted in the Leicestershire Fund

6. The Fund will accept;
 - Transfers from another Local Authority pension scheme, known as Inter Fund adjustments.
 - Transfers from Public-Sector – this includes Club and Non-Club transfers from these Schemes.

The Fund continues not to accept transfers from Non-Club schemes or other approved pension schemes.

7. Prior to the 8 November 2019 the only exception to the above was for individual scheme members whose employment transfers into Leicestershire Fund employers via Transfer of Undertakings Protection of Employment (TUPE) arrangements. These are extremely uncommon, but the Fund was sometimes asked if these members can transfer in any previous pension arrangements. This is referred to in Section 6 in the report dated 21 September 2009.
8. Since the 8 November 2019 the Fund no longer accepts any Non-Club scheme or other approved pension schemes for all TUPE cases.

This change aligns the rules for all scheme members in the Fund and negates the risk of the receiving Fund employer in the TUPE arrangement, increasing the fund liability and their fund risk unnecessarily.

General

9. In all cases a member can only request a transfer in within 12 months of starting in the Leicestershire Fund.
10. The rationale behind the minor change since the 8 November 2019 is to maintain an avoidance of unnecessary liabilities into the Fund, but also to clarify the position about Public-Sector schemes.

Recommendation

11. To note the report.

Appendix

Employment Committee Report 21 September 2009 – LGPS Transfer of Pension Rights.

Equality and Human Rights Implications

None specific

Officers to Contact

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Declan Keegan – Assistant Director of Strategic Finance and Property -
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Leicestershire
County Council



EMPLOYMENT COMMITTEE – 21 SEPTEMBER 2009

REPORT OF THE DIRECTOR CORPORATE RESOURCES

**LOCAL GOVERNMENT PENSION SCHEME (LGPS) – TRANSFER OF
PENSION RIGHTS**

Purpose

1. To request the Committee to agree to a decision by the Administering Authority not to accept transfer values from certain pension scheme arrangements.
2. Under the Local Government Pension Scheme rules transfer values are able to be accepted into the scheme from a variety of different types of scheme. These can be broadly split into three categories.
 - (a) Transfers from another Local Authority pension scheme, known as Inter Fund adjustments.
 - (b) Transfers from other members of the Public Sector Transfer Club
 - (c) Transfers from other approved pension schemes other than the above.
3. There is a requirement to accept transfers from another Local Authority fund and also from all other members of the Transfer Club, which is part of the terms of membership of it. However, there is no obligation to accept transfers from other schemes.

Background

4. The Public Sector Transfer Club, more usually known as the Club, is a group of some 120 salary related occupational pension schemes, not all of whom are based in the public sector as the name might suggest. Private sector schemes can participate if they are:
 - Salary-related occupational schemes;
 - Have full HM Revenue & Customs approval;
 - The scheme's trustees or managers agree to comply with the Club arrangements;

- The scheme is contracted out of the State Second Pension - formerly SERPS (a requirement since 1997).
5. Under the current LGPS rules a member may request a transfer of pension rights within 12 months of joining the pension scheme and the scheme may accept it and transfer it to the pension scheme.

Proposal

6. The proposal is not to accept any transfers from non-Club pension schemes for any new scheme member who joins on or after 1 January 2010, with the exception of any members transferring under a TUPE arrangement.
7. Any new members who join before that date would still have a 12 month period in which to request a transfer.
8. The rationale behind the proposal is based on avoiding unnecessary liabilities into the pension fund.
9. When a transfer is received, a period of LGPS service is credited to the individual. This service credit is based on the capital sum received, the starting salary of the member and an assumption that the individual will enjoy average salary growth (based on their age) thereafter. If the member ultimately has higher salary growth or retires early either through redundancy, efficiency, flexibly or on ill health grounds there will be an unanticipated extra cost to the transferred-in service, which will fall onto the sub-fund of the scheme employer.
10. It is felt that non-acceptance of transfers which the fund is not statutorily bound to accept will help meet the Government's longstanding policy on affordability, as this action will help avoid potential additional liabilities.
11. All major scheme employers were contacted asking for their views on the proposal, which were to be returned by 28 August 2009.
12. Four employers replied, three of which supported the proposal with one wishing to retain the current situation.
13. Unison were consulted in addition and have raised no objection to the proposal.

Recommendation

13. That the committee approves the proposal not to accept transfers from non-club pension schemes for new scheme members who join the Local Government Pension Scheme on or after 1 January 2010.

Background papers

None.

Circulation under Sensitive Issues Procedure

None.

Officer to contact

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Equal Opportunities Implications

There are no equal opportunity implications arising from this report. The decision would apply to all.

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LOCAL PENSION BOARD – 2 DECEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose

1. The purpose of this report is to inform the Board of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

Background

2. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record and members be kept aware of 'risk management and internal controls'. The code states this should be a standing item on each Pension Board and Pension Committee agenda.
3. In order to comply with the code the risk register and an update on supporting activity is included on each agenda.

Risk Register

4. The updated Risk Register is attached as an appendix to this report. Progress updates have been made to risks 7,9 and 11.
5. Risk 3 (Administration of the Firefighters pension scheme) has been removed from the register. This reflects the discussions that are taking place with the three Fire Authorities regarding the orderly transfer of the service to a new provider.
6. A new risk relating to cyber security has been added to the risk register following the Pension Regulator's deep dive into Pension Fund administration. A separate report detailing the Regulator's deep dive is included in the reports to the Pension Board.

Identified Risks of Concern

7. There are currently no identified risks of concern.

Recommendation

8. The Local Pension Board is asked to note the latest risk register of the Pension Fund.

Appendix

Risk Register

Equality and Human Rights Implications

None.

Officers to Contact

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Mr I Howe, Pensions Manager, Corporate Resources
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Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; Tolerate Treat Terminate Transfer	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
1	Pens	If the Pension Fund fails to reconcile HMRC Guaranteed Minimum Pension (GMP) data with the Pension Section data there is a risk of overpayment of Pensions Increase	From 2018 the pensions section has had responsibility for GMPs creating the need to ensure that this is accounted for in the pensions increases	Overpaying pensions (i.e. for GMP cases pension increases are lower) Reputation	Ian Howe	Checking of HMRC GMP data to identify any discrepancies Full time person recruited to work on the project	3	3	9	Treat	Working through cases Developed reporting tools to assist HMRC have closed their window for new submissions	2	1	2	Ian Howe
2	Pens	If the Pension Fund fails to implement a pension administration system, pensioner payroll and immediate payments system the Pension Section will fail to deliver its statutory duties for both LGPS and the 3 Fire Authorities. It will also be unable to pay pensioners and other single payments (e.g. lump sums)	A new system has been implemented, with several features subject to a gradual roll-out.	Unable to pay pensioners Unable to pay single payments Unable to meet statutory requirements Manual calculations Huge increase in administration time causing delays Increased appeals	Ian Howe	Gradual implementation of member self-service functionality Working in partnership with another Fund Phased approach to implementation, with single payment the most significant piece of functionality remaining.	4	2	8	Treat	Detailed project planning for final phase, accounting for other pressures in the section Pensioner payroll and MSS completed. Immediate payments to be completed by the end of 2019	2	1	2	Ian Howe
3	Pens	If the Pensions section fail to meet the service requirements of the three Fire Authorities we may lose their business	Changes in legislation on the Firefighters pension scheme has significantly increased the scheme's complexity. Only limited knowledge in the Section in this area. Outstanding legal challenges could significantly impact on the Fire scheme rules and	Reputation Potential loss of business Increased administration	Ian Howe	Quarterly meetings take place with the Fire Authorities to resolve issues Membership of the Midlands Fire Officer Group enables us to identify and resolve issues early Resource on the team	2	3	6	Treat	Continue to monitor and develop improvements to work processes, guiding all three Fire Authorities to similar processes and decisions (where possible). Set up a joint pension board for the 3 Fire	2	2	4	Ian Howe

			administration time			increased SLA and contracts produced					Authorities Refresh of contracts in progress Press the LGA and all relevant parties nationally on regulatory changes				
4	Pens	If the pensions fund fail to receive accurate and timely data from employers scheme members pension benefits could be incorrect or late	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations	Ian Howe	Training provided for new employers Guidance notes provided for employers Amended SLA and communication and administration guide distributed to employers making IConnect a statutory requirement by 31/3/2020)	3	3	9	Treat	Implement IConnect with employers so they provide monthly data in a secure and timely manner Inform the Local Pension Board each quarter on progress made	3	2	6	Ian Howe
5	Pens/ Invs	The resolution of the McCloud case could increase administration significantly resulting in difficulties providing the ongoing pensions administration service The liabilities of the Fund are expected to increase for all employers	Mr McCloud winning his appeal on age discrimination on public sector pension schemes and the protection afforded to older members during the move to career average benefits, followed by Government losing their right of appeal.	Ultimate outcome currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs	Ian Howe	Guidance from LGA, Hymans, Treasury	3	3	9	Treat once details are confirmed	Working with Hymans to include an estimated cost in the valuation Employer bulletin to employers making them aware of the current situation Await proposed resolution from the employment tribunal	2	3	6	Ian Howe
6	Invs	Employer and employee contributions are not paid accurately and on time	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	Ian Howe	Receipt of contributions is monitored and late payments are chased quickly	2	4	8	Treat	Late payers will be reminded of their legal responsibilities.	2	3	6	Declan Keegan

[illegible]

											autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy				
9	Invs	Market investment returns are consistently poor and this causes significant upward pressure onto employer contribution rates	Poor market returns, most probably caused by poor economic conditions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Chris Tambini	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	5	2	10	Treat	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise, but is still based on a reasonable medium-term assessment of future returns	4	2	8	Bhulesh Kachra
10	Invs	Market returns are acceptable but the performance achieved by the Fund is below reasonable expectations	Poor performance of individual managers, or poor asset allocation policy	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate	3	3	9	Treat	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative performance will occur. Decisions regarding manager termination to consider multiple factors including performance versus mandate and it's reason for original inclusion.	2	2	4	Bhulesh Kachra
11	Invs	Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates	Chris Tambini	Ensuring that all factors that may impact onto investment returns are taken into account when setting the asset allocation.	3	3	9		Responsible investment aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable,	2	2	4	Bhulesh

		investment managers		than would otherwise have been necessary.		Only appointing investment managers that integrate responsible investment into their processes. Utilisation of dedicated Responsible Investment team at LGPS Central				Treat	long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant sort term changes to the allocation. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time.				Kachra
12	Invs	Investment pooling within the LGPS fails to deliver a higher long term net investment return	LGPS Central fails to deliver better net investment returns than the Fund would have expected to achieve it investment pooling did not occur	Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Chris Tambini	Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will give significant influence in the event of issues arising. Appraisal of each investment products before a commitment to transition is made	3	3	9	Treat	The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor closely how the company evolves Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds	2	2	4	Bhulesh Kachra
13	Invs	Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions	3	3	9	Treat	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	2	2	4	Bhulesh Kachra

14	Invs	The transition of investment assets to LGPS Central is not successful	<p>Pooling does not reduce the on-going management costs of assets</p> <p>Transition costs are significantly higher, for example the cost of selling the existing investments and buying new ones.</p>	Savings available do not justify the transition costs and on-going cost of running LGPS Central	Chris Tambini	<p>Central maintains the flexibility to run funds internally.</p> <p>Specialist transition manager being appointed, with independent specialist oversight.</p> <p>Formal review follows each transition.</p> <p>Implementation being phased, allowing capacity to be managed and lessons learned.</p>	2	3	6	Treat	<p>Approach for each transition assessed independently.</p> <p>Views from 8 partners sought throughout the transition process.</p> <p>LGPS Central's Internal Audit plan includes an assessment of the governance surrounding the transition</p>	2	2	4	Bhulesh Kachra
15	Pens	If the Pensions Section fails to meet the information/cyber security and governance requirements then there may be a breach of the statutory obligations.	<p>Pensions database now hosted outside of LCC.</p> <p>Employer data submitted through online portal.</p> <p>Member data accessible through member self service portal (MSS).</p> <p>Data held on third party reporting tool (DART).</p> <p>Greater awareness of information rights by service users.</p>	<p>Diminished public trust in ability of Council to provide services.</p> <p>Loss of confidential information compromising service user safety.</p> <p>Damage to LCC reputation.</p> <p>Financial penalties.</p>	Ian Howe	<p>Regular LCC Penetration testing and enhanced IT health checks in place.</p> <p>LCC have achieved PSN compliance.</p> <p>New firewall in place providing two layers of security protection in line with PSN best practice.</p>	5	2	10	Treat	<p>Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place.</p> <p>Liaise with Audit to establish if any further processes can be put in place in line with best practice.</p>	5	1	5	Stuart Wells

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	Pension Section <£50k Investments Losses expected to be recovered in the short term
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Pension Section £50k-£250k Minimal effect on budget/cost Investments Some underperformance, but within the bounds of normal market volatility
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Pension Section £250k - £500k Small increase on budget/cost: Handled within the team/service Investment Underperformance by a manager requiring review by the Investment Sub-committee
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Pension Section £500-£750k. Significant increase in budget/cost. Service budgets exceeded Investment Underperformance of significant proportion of assets leading to a review of the Investment or Funding strategy

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers	Pension Section >£750k Large increase on budget/cost. Investment Employer contributions expect to increase significantly above Funding Strategy requirement

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

Impact

5 Very High/Critical

4 Major

5	10	15	20	25
4	8	12	16	20

3 Moderate

2 Minor

1 Negligible

3	6	9	12	15
2	4	6	8	10
1	2	3	4	5
1	2	3	4	5
Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/ Likely	Almost certain
<u>Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)</u>				

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