



*Meeting:* **Local Pension Board**

*Date/Time:* **Monday, 8 February 2021 at 10.00 am**

*Location:* **Microsoft Teams.**

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

*Email:* **cat.tuohy@leics.gov.uk**

## AGENDA

<u>Item</u>	<u>Report by</u>	
1. Election of Chairman.		
2. Election of Vice-Chairman.		
3. Minutes of the meeting held on 26 October 2020.		(Pages 3 - 6)
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 October to December 2020 - Quarter Three.	Director of Corporate Resources	(Pages 7 - 58)
8. Employer Risks and Exits - Funding Strategy Statement Consultation.	Director of Corporate Resources	(Pages 59 - 114)
9. Business Plan and Budget 2021/22.	Director of Corporate Resources	(Pages 115 - 128)



- |  |                                       |                      |
|--|---------------------------------------|----------------------|
| 10. Risk Management and Internal Controls.                               | Director of<br>Corporate<br>Resources | (Pages 129 -<br>142) |
| 11. Pension Fund Continuous Improvements<br>Report - February 2021.      | Director of<br>Corporate<br>Resources | (Pages 143 -<br>148) |
| 12. Any other items which the Chairman has<br>decided to take as urgent. |                                       |                      |
| 13. Date of Next Meeting.  |                                       |                      |

The next meeting is scheduled to take place on 24 May 2021 at 10am via Microsoft Teams.

**TO:**

Employer representatives

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

Employee representatives

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

Reserve Employee Representative: Mr. M. Saroya



Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Monday, 26 October 2020.

PRESENT

Mrs. R. Page CC (in the Chair)

Cllr E. Pantling      Mr R. Shepherd  
Ms. R Gilbert        Ms. C. Fairchild

62. Minutes.

The minutes of the meeting held on 10 August 2020 were taken as read, confirmed and signed.

63. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 36.

64. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Mr. Shepherd CC declared a personal interest in agenda item (Government Proposals to Reform Local Government Exit Pay) as a member of Cabinet for Leicestershire County Council.

65. Urgent Items.

There were no items for consideration.

66. Governance Review.

The Board received a report from the Director of Corporate Resources regarding the Governance Review. A copy of the report marked 'Agenda Item 5' is filed with these minutes.

Arising from the discussion the following points were noted:-

- i) The Fund awaited further guidance from the LGPS Scheme Advisory Board regarding the Good Governance report prior to taking action on certain recommendations laid out.

- ii) The recommendation to remove 'local' from the Local Pension Committee was to attempt to reduce confusion between the Committee and the Board. 'Local' in the Board was due to the National LGPS Board, of which there was no equivalent for the Committee, so the distinction was unnecessary.
- iii) Pensions knowledge was a broad area and could take Members a few years to become fully conversant on the different topics. It was acknowledged that membership of elected councillors on the Board was often dependent on them being re-elected following a four-year term.
- iv) Members felt they were offered good training opportunities and that there was good practice undertaken as part of the Fund's Training Policy. It was further suggested consideration be given to simplification of process to allow quick take up of information available once first appointed to the Board.
- v) The Board agreed that a report should be taken to the Fund's Annual General Meeting setting out the Board's work throughout the year.

RESOLVED:

- a) That the report be noted and supported.
- b) That a report be brought in a year updating the Board on progress made towards recommendations.
- c) That an Annual Report of the Board be produced and added to the Agenda of Leicestershire Pension Fund's Annual General Meeting on the 14<sup>th</sup> December.

67. Pension Fund Annual Report and Accounts 2019/20.

The Board received a report from the Director of Corporate Resources regarding the Pension Fund Annual Report and Accounts 2019/20. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

RESOLVED:

That the report be noted and supported

68. Pension Fund Administration Report July to September 2020 - Quarter Two.

The Board received a report from the Director of Corporate Resources regarding administration of the Fund July to September 2020. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

The Board noted that the Fund's response to Government's consultation on the Exit Cap had been approved by Committee and had been sent to the Ministry of Housing, Communities and Local Government. There remained a great deal of uncertainty regarding the regulations which the Board would be updated on when available.

The Board had no matters of concern that it wished to refer to the Local Pension Committee.

RESOLVED:

That the report be noted.

69. Pension Section - Employer Risk.

The Board received a report from the Director of Corporate Resources regarding Employer Risk. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

The Pension Manager advised the Board that there could be legitimate reasoning for an employer to request a rate review, for example financial pressure in the short-term. However, even if such a review did result in the reduction of its contributions, as it was a defined benefit pension scheme, the employer would ultimately need to pick up any deficit in the long term.

The Board were informed that one employer had contacted the Fund which the Pensions Manager would liaise with. Ultimately, the Fund was awaiting national guidance from the Scheme Advisory Board or CIPFA expected early 2021 on what would class as a trigger for a review.

The Board were pleased to note that no employer had asked for a contribution break as a result of COVID-19.

RESOLVED:

That the report be noted.

70. Risk Management and Internal Controls.

The Board received a report from the Director of Corporate Resources, 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 9'.

The Pension Manager informed the Board that a risk had been added to address the concern over the gradual increase in transfer out activity. The risk related to a concern that members were tempted to achieve short term financial income with companies or private pension arrangements that had complex benefit structures. The Pensions Section was working closely with legal colleagues to protect scheme members benefits from potential scam activity.

The Board was assured that while scheme members were entitled to manage their pension however they wished, the Fund would always look to provide relevant advice and ensure members were confident with their transfer out before action was taken.

RESOLVED:

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

71. Pensions Section - Complaints Policy.

The Board considered a report of the Director of Corporate Resources regarding the Pensions Section Complaints Policy. The report marked 'Agenda Item 10', is filed with these minutes.

The Board supported the policy and were pleased to note that it would ensure complaints be handled in a consistent, appropriate and timely manner.

RESOLVED:

That the report be noted.

72. Date of the next meeting.

It was noted that the next meeting of the Board would be held on 8 February 2021 at 10am.

10.00 am - 12.00 pm  
26 October 2020

CHAIRMAN



**LOCAL PENSION BOARD - 8 FEBRUARY 2021**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND ADMINISTRATION REPORT**  
**OCTOBER TO DECEMBER 2020 - QUARTER THREE**

**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 October to December 2020 quarter are detailed within Appendix A.

**Administration**

**General Workloads**

5. The tables show the position in the key work areas, October to December 2020.

**October 2020**

Area	Cases completed in the period	Remaining cases at the end of the period	Maximum Number of Cases at Month End
Preserved benefits	97	1,131	900
Aggregations	245	869	1000
Interfunds in	23	160	200
Retirements	429	541	500
Deaths	80	133	100
Transfers Out (excluding interfunds)	11	57	100
Refunds	51	197	400

**November 2020**

Area	Cases completed in the period	Remaining cases at the end of the period	Maximum Number of Cases at Month End
Preserved benefits	147	1,211	800
Aggregations	250	841	650
Interfunds in	19	182	200
Retirements	333	615	500
Deaths	89	139	100
Transfers Out (excluding interfunds)	22	44	100
Refunds	43	151	400

**December 2020**

Area	Cases completed in the period	Remaining cases at the end of the period	Maximum Number of Cases at Month End
Preserved benefits	35	1,271	750
Aggregations	119	804	450
Interfunds in	8	192	200
Retirements	343	559	600
Deaths	64	154	100
Transfers Out (excluding interfunds)	23	44	100
Refunds	85	173	400

6. The main points to note;

- Preserved benefits and aggregations remain higher than target and new resource will move into these areas in January.



- The Pension Section is starting to see a gradual increase in deaths. It is slightly too early to say if this is linked to the latest Covid rises but it is expected to be linked.

#### Reforming Local Government Exit Pay (known as the £95,000 Exit Cap)

7. On the 27 November 2020 the Local Pension Committee approved the Fund's position on the £95,000 Exit Cap. The Fund's policy on how to deal with cases is detailed as follows;

#### For Cases that Breach the £95,000 Cap -The Pension Fund will offer either

- a. Fully reduced benefits, or
  - b. Preserved benefit
    - i. It is fully anticipated this will generate appeals and it is likely a case will be fast tracked to the Ombudsman.
8. The Fund suggests to employers not to make payment of a "cash alternative" as this creates an additional unnecessary risk and is designed to avoid overpayments or the need to reclaim amounts from scheme members. If an employer makes payment of the cash alternative and then the ultimate regulatory position requires payment of a pension strain cost, the cash alternative will then need to be reclaimed (in full or in part) from the member. Employers will need to have a legal agreement in place with the scheme member to enforce repayment of the cash alternative, should this become necessary.

#### For Cases that Do Not Breach the £95,000 Cap

9. The Pension Section has amended its processes and letters and informed the Fund's employers of these changes. The Pensions Manager will continue to produce estimates for people retiring on redundancy and efficiency grounds who are under the £95,000 Cap, up to and including a retirement date of the 30 June 2021, based on the current scheme rules.
10. This means members will continue to receive fully unreduced benefits. This is on the understanding the employee and the employer have entered into an agreement to terminate before the LGPS Regulations come into force and the members retirement date falls within the 6 months protection period (which is broadly estimated to be 6 months from the 1 January 2021).
11. When the LGPS Regulation change is made, and the transitional arrangements are finalised, the Pensions Section will adjust its processes to reflect this.
12. For cases that take place from the point when the LGPS Regulations change, (unless the employer has entered into an agreement with the employee and

the employee's termination date is within six months of the Regulation change) require the Pension Fund to reduce the pension strain by the redundancy payment, so the scheme member receives an element of their pension reduced. This is likely to be cases where members retire from the 1 July 2021 onwards, or before this date, without the employee and employer having entered into an agreement.

13. The Pension Section has added a new caveat to estimate letters for cases impacted based on the dates detailed in the report.

#### New Pensions Structure and Fire Pensions Administration

14. On the 31 December 2020 the Pension Section ceased providing pension administration services to Nottinghamshire, Derbyshire and Leicestershire Fire Authorities. The administration was transferred over to West Yorkshire following a successfully tender carried out by the three Fire Authorities.
15. On the 1 January 2021 the Pension Manager implemented a new office structure to assist the Section deal with the current administrative issues.
16. The new structure has five teams with their own Team Manager who report directly to the Pensions Manager. The new teams and the Managers are as follows;

Stuart Wells – Continued Improvements and Systems  
 Sue Hodson – Payments and Taxation  
 Elena Johnson – Early Leavers  
 Dean Campbell – Employers and IConnect  
 Gary Featherstone – McCloud Project (temporary team)

17. Due to the increasing workloads, the Section has increased by four temporary Pensions Assistants, initially on 12 monthly contracts.

#### **Governance Items**

##### Complaints – Internal Disputes Resolution Procedure

18. The Pension Section deals with complaints through the Local Government Pension Scheme's formal Internal Dispute Resolution Procedure (IDRP). However, complaints are usually resolved informally, avoiding the need for the IDRP to commence. Initial complaints are often caused by misunderstandings or human error and can quickly be resolved.
19. In the period October to December 2020 there were no new IDRP stage 2 appeals. There was progress on two existing Stage 2 cases;
  - One case was referred back to the member's previous employer to reconsider their original Stage 1 decision.

- One case was completed, following an earlier referral back to the member's previous employer. The employer reviewed their original Stage 1 decision and have now successfully resolved the complaint.

#### Implementation of monthly posting

20. The Pension Section continues a phased implementation of monthly postings using i-Connect, as part of the Leicestershire Fund's data improvement plan. The main developments in the October to December quarter:
- The following employers went live on i-Connect: Community Inclusive Trust - Foxfield Academy, The Priory Academy Trust - Belvoir Academy, East Midlands Housing Group, Voluntary Action Leicester and Syston Parish Council.
  - Work has continued with a strong focus to go live with the following priority 1 employers in 2020/21: Rutland County Council, Leicester College and Embrace Academy Trust.
  - Several priority 2 & 3 employers have been progressing well and are expected to go live between January and March 2021: Queensmead Primary Academy, South Leicester College, Midlands Academy Trust, MCS Cleaning and Whetstone Parish Council.
  - St Thomas Aquinas (priority 1 ER) has confirmed they will not be able to generate the i-Connect reports as required in the time available and have therefore moved their go-live date back to April 2021.
  - EPM payroll and The Vines Academy Trust (priority 1 ER's) have not provided a suitable i-Connect report or replied to progress queries in recent months. Officers still hope they will go-live from April 2021 if this issue is resolved. EPM employers include LEAD Academy, Rutland County Council (paid by EPM), St Therese of Lisieux / St Gilbert of Sempringham, The Rutland Learning Trust, Tudor Grange Academies Trust and Uppingham College.
  - Fire Civilians have moved payroll providers from East Midland Shared Services to Warwickshire County Council (WCC). Fire Civilians will continue to post data via i-Connect but WCC are currently working on the report generation, as a result the uploads are currently on hold.
  - Leicestershire County Council's Fit For The Future project has progressed and 14 Academy employers have moved from Oracle payroll to the new Fusion payroll system. The payroll move has added an extra layer of initial work in the i-Connect process, causing some minor delays. The new Fusion i-Connect report is in progress with East Midlands Shared Services and Officers plan to have the new reports before year-end.
  - De Montfort University (DMU) i-Connect implementation was fully handed over to the employer, the training took several weeks to complete. Officers are monitoring the uploads closely and offer support where needed to prevent

issues at year-end. Currently DMU is confident the relevant data will be processed by year-end.

- The Pension Section is continuing to upload the following employers i-Connect reports to control the timing and ensure the quality of data: Leicestershire County Council, LCC Academies (Oracle and Fusion), Leicester City Council, Melton Borough Council, Harborough District Council and Broughton Astley Parish Council.
21. As at the 15 January 2021, 115 out of 192 employers are using i-Connect covering over 30,000 active members.
  22. The focus over the next four months is to get as many employers live as possible in time for year-end, particularly the outstanding priority 1 employers. The Fund's position as at 15 January 2021 is attached as Appendix B.

#### Breaches Log

23. The Pension Manager retains the Fund's 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.
24. The only current active breach is due to the delays at the Fund's in-house AVC provider, The Prudential. The delays are causing the Fund to be unable to process retirements for scheme members with AVCs, in a timely manner. The Pension Manager has escalated this issue within the Prudential, had a meeting with Prudential's Senior Managers, and is keeping Scheme Members informed.
25. The January 2021 breaches log is attached as Appendix C.

#### Administration and Communication Strategy

27. The Leicestershire Pension Fund has an Administration and Communication Strategy. This is a legislative requirement and the Pensions Manager reviews the strategy at least every two years and brings changes to the Pension Board. Significant changes are consulted on with the Fund's employers
28. The last review of the strategy was in January 2020 and was taken to the Pension Board for noting.
29. Following a review in January 2021, The Pensions Manager has made two minor changes to the strategy. These are not deemed material so employers have not been consulted with, however those employers that are affected by the change to the IConnect deadline, have been informed as this is designed to assist them with the transition to monthly posting of data.

The two changes are;

- The deadline for employers to start submitting monthly IConnect data has been extended from the 31 March 2021 to the 31 March 2022. Of the Fund's 192 employers with active scheme members, there are 115 submitting monthly data already with 77 employers remaining.
  - Refreshed wording in respect of governance of the Fund following the Independent Governance Review and revised Terms of Reference of the Local Pension Committee and Board.
30. The January 2021 version is attached as Appendix D. This will be taken to the Local Pension Committee on the 28<sup>th</sup> February 2021 for final approval.

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

31. 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.
32. 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 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.
33. Officers continue to monitor employer risks including the bond values and the contract dates, working closely with the employers to maintain the required security. Unfortunately, some employers do not maintain the bonds and allow these to lapse.
34. 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.
35. As at the 15 January 2021, cases outstanding are detailed in the tables below.

**Bonds Outstanding**

<b>Pre April 2019 or pass-through</b>	<b>Letting employer and Contractor</b>	<b>Full or Capital Cost Bond / Value and End Date</b>	<b>Comments</b>
Pre April 2019 (contract extended to	Tudor Grange (Samworth)	Full. £58,000 to 31/3/2022	Bond agreement sent to Tudor Grange and CSE Ltd October 2020  Bank had completed and signed a

31/3/2022)	to CSE Ltd	(previous bond lapsed on 31/3/2020 when original contract was due to end)	bond extension not realising that bond had expired.  Bond agreement back with CSE for signing December 2020
Pre April 2019 (contract extended to 31/3/2022)	Tudor Grange (Robert Smyth)  to CSE Ltd	Full. £50,000 to 31/3/2022  (previous bond lapsed on 31/3/2020 when original contract was due to end)	Bond agreement sent to Tudor Grange and CSE Ltd October 2020  Bank had completed and signed a bond extension not realising that bond had expired.  Bond agreement back with CSE for signing December 2020
Pre April 19 (contract extended to 31/8/2021)	South Charnwood High School  to MCS Cleaning	Full. £11,000 to 31/08/2021  (previous bond lapsed on 31/8/2020 when original contract was due to end)	Officers were notified in November 2020 that the contract had been extended to December 2020.  Given the timescale it would have not been possible to get a bond extension in place before the contract ended so the Pensions Manager decided to proceed without bond.  Officers were notified in January 2021 that the contract has been extended further to August 2021.  Bond agreement sent to South Charnwood and MCS January 2021

**Admission Agreement Outstanding (some also have bonds)**

<b>Pre April 2019 or pass-through</b>	<b>Letting employer and Contractor</b>	<b>Full or Capital Cost Bond / Value and End Date</b>	<b>Comments</b>
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Pass through 1 January 2020	Hinckley Academy and John Cleveland Sixth Form Centre  to Caterlink	Capital Cost Bond.  Bond value and end date not yet established due to uncertainty over the staff that transferred.	The Fund established in April 2020 via the contractor that transfer had taken place.  The Fund has been trying to establish from the Academy the type of transfer (pass-through or not).  Officers have chased for confirmation again in July 2020, September 2020, October 2020 and in January 2021.  This was escalated in January 2021 given the lack of response.  The staff will be informed once it is confirmed who they are.
Pass through 4 April 2020	David Ross Education Trust  to Caterlink	Capital Cost bond of £12,000  (3-year contract with an additional 2 years optional)	This is a second stage transfer from Chartwells.  The Fund found out about this on the 17 July 2020.  Officers have chased the David Ross ET for the pass-through form again in September 2020  Draft bond and admission agreement circulated October 2020  Officers have chased up both the admission agreement and bond December 2020.  The staff have been informed of the delay.
Pass through 17 September 2020	Police to MITIE	Capital Cost bond.  £190,000 to the end of the contract	This is a second stage transfer from G4S.  Discussions are ongoing, due to Bond Companies restrictions to the terms of the Fund's Bond document.  Discussions took place, considering a Parent Company

			<p>Guarantee, but the Fund decided a Bond is still required.</p> <p>All parties are actively engaged in resolving this issue quickly.</p> <p>The staff have not been informed at this early stage.</p>
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36. The seven case were completed in the quarter are listed below;

- Beacon Academy to Cleantec
- Beacon Academy to Mellors catering
- Mowbray Educational Trust (Sherard PS) to Aspens
- Tudor Grange to Caterlink
- City Council (Soar Valley) to Atalian Servest Food
- Mowbray Educational Trust (John Ferneley College) to Caterlink (updated bond)
- City Council (Crown Hills) to Aspens (updated bond)

37. Given the increased activity and risk with employers in this area of pensions, the Pension Structure was amended in January 2021 to have greater emphasis with employers. Officers are in regular contact with the employers to ensure all outstanding agreements and bonds are completed as quickly as possible.

### **Recommendation**

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

### **Equality and Human Rights Implications**

None specific

### **Appendix**

Appendix A – Key Performance Indicators October to December 2020

Appendix B – Fund’s position on the role out of monthly postings (January 2021)

Appendix C – Fund’s breaches log (January 2021)

Appendix D – Administration and Communication Strategy (January 2021)



## Officers to Contact

Ian Howe  
Pensions Manager  
Telephone: (0116) 305 6945  
Email: Ian.Howe@leics.gov.uk

Declan Keegan  
Assistant Director of Strategic Finance and Property  
Telephone: (0116) 305 6199  
Email: Declan.Keegan@leics.gov.uk

## APPENDIX A

Quarter - October to December 2020									
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%	93%	▲	95%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	100%	▲	100%
Pension payments made within 10 working days of receiving election	95%	93%	▶	95%	Experience of dealing with Section - rated at least good or excellent	95%	96%	▲	97%
Death benefits/payments sent to dependant within 10 working days of notification	90%	88%	▶	86%	Establish members thoughts on the amount of info provided - rated as about right	92%	94%	▲	99%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	100%
Good or better than target	▲				Email response - understandable	95%	93%	▶	93%
Close to target	▶				Email response - content detail	92%	93%	▲	92%
Below target	▼				Email response - timeliness	92%	97%	▲	97%

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## APPENDIX B - Employer I-Connect Position as at 15th Jan 2021

EMPLOYERS (192 total)	Category of Employer	Live on iConnect?	Priority	Go-live date	Work Underway	Current Status	Handed over to ER	Provider	Recent Notes
<b>Live on i-Connect (115)</b>									
De Montfort University	Large ER	Yes	1	Apr-19	Yes	Live	Yes	District	Handed over to ER Nov/Dec 20
EMH Group (East midlands homes/housing group)	Small ER	Yes	3	Apr-20	Yes	Live	Yes	District	Went live Jan 21
Foxfield Acad / CIT Academy	Small ER	Yes	3	Apr-20	Yes	Live	Yes	District	Went live Jan 21
Priory AT Belvoir Academy, The	New ER	Yes	2	Apr-20	Yes	Live	Yes	District	Went live Dec 20
SYSTON TOWN COUNCIL	Small ER	Yes	3	Apr-20	Yes	Live	Yes	District	Went live Dec 20
Voluntary Action Leicester	Small ER	Yes	3	Apr-20	Yes	Live	No	District	Went live Jan 21. Figures to be investigated, uploads on hold.
FIRE SERVICE CIVILIANS iConnect	Large ER	Yes	1	Apr-18	Yes	Live	Yes	WCC	New payroll provider from July 20 - work in progress for payroll to generate the report
ASHBY WOULD'S TOWN COUNCIL	Small	Yes		Apr-18	Yes	Live	Yes	District	
Avanti School Trust	Medium	Yes		Apr-18	Yes	Live	Yes	Dataplan	
Barwell Parish Council	Small	Yes		Apr-18	Yes	Live	Yes	District	
Bellrock Management	Small	Yes		Apr-19	Yes	Live	Yes	District	
Blaby DC	Large	Yes		Apr-18	Yes	Live	Yes	District	
BRAUNSTONE TOWN COUNCIL iConnect	Small	Yes		Apr-18	Yes	Live	Yes	District	
Brookvale High School	Large	Yes		Apr-19	Yes	Live	Yes	District	
Broughton Astley PC	City	Yes		Apr-19	Yes	Live	No	City	
Charnwood BC	Large	Yes		Apr-18	Yes	Live	Yes	District	
COUNTESTHORPE PC iConnect	Small	Yes		Apr-18	Yes	Live	Yes	District	
David Ross Education Trust	Medium	Yes		Apr-18	Yes	Live	Yes	Dataplan	
Rise A CoFe MAT (was Diocese of Leicester AT ) SAAF payroll	MAT	Yes		Apr-19	Yes	Live	Yes	District	
East Midland Shared Services	EMSS	Yes		Apr-18	Yes	Live	Yes	EMSS	
Enderby Parish Council	Small	Yes		Apr-18	Yes	Live	Yes	District	
ESPO	EMSS	Yes		Apr-18	Yes	Live	Yes	EMSS	
GLEN PARVA PARISH COUNCIL	Small	Yes		Apr-18	Yes	Live	Yes	District	
Govindas (Avanti Schools)	Small	Yes		Nov-18	Yes	Live	Yes	Dataplan	
Harborough DC	City	Yes		Apr-19	Yes	Live	No	City	
Hinckley & Bosw'th BC	Large	Yes		Apr-18	Yes	Live	Yes	District	
Learn Academy Trust	Medium	Yes		Apr-19	Yes	Live	Yes	Dataplan	
Leicester City Council	City	Yes		Apr-19	Yes	Live	No	City	
Leicestershire CC (payroll 10 & 23)	EMSS	Yes		Apr-18	Yes	Live	No	EMSS	
Leics Forest East PC	Small	Yes		Apr-18	Yes	Live	Yes	District	
Long Field Academy	Medium	Yes		Mar-19	Yes	Live	Yes	Dataplan	
Lough University	Large	Yes		Apr-18	Yes	Live	Yes	District	
Loughborough College	Large	Yes		Apr-18	Yes	Live	Yes	District	
LUTTERWORTH T C	Small	Yes		Apr-18	Yes	Live	Yes	District	
MARKET BOSWORTH PARISH COUNCIL	Small	Yes		Apr-18	Yes	Live	Yes	District	
Melton B C	City	Yes		Apr-19	Yes	Live	No	City	
Melton Learning Hub	Small	Yes		Apr-18	Yes	Live	Yes	District	
Mountsorrel PC	Small	Yes		Apr-18	Yes	Live	Yes	District	
MOWBRAY EDUCATIONAL TRUST	Medium	Yes		Apr-18	Yes	Live	Yes	Dataplan	
North West Leics D C	Large	Yes		Apr-18	Yes	Live	Yes	District	
Oadby and Wigston BC iConnect	EMSS	Yes		Apr-18	Yes	Live	Yes	EMSS	
OAK MAT	Medium	Yes		Apr-18	Yes	Live	Yes	Dataplan	
Rawlins Academy	Large ER	Yes		Apr-20	Yes	Live	Yes	District	
Scraptoft PC	Small	Yes		Apr-18	Yes	Live	Yes	District	
SLM (Blaby DC 2006 contract)	Small ER	Yes		Apr-19	Yes	Live	Yes	SLM	
SLM (Blaby DC 2019 contract)	Small ER	Yes		Apr-19	Yes	Live	Yes	SLM	
SLM (Oadby and Wig)	Small ER	Yes		Apr-19	Yes	Live	Yes	SLM	
SLM Everyone active (NW Leisure)	Large ER	Yes		May-19	Yes	Live	Yes	SLM	
The Chief Constable & The OPCC	Large	Yes		Apr-19	Yes	Live	Yes	District	
The Mead Educational Trust	Medium	Yes		Apr-19	Yes	Live	Yes	Dataplan	
THURMASTON PARISH COUNCIL iConnect	Small ER	Yes		Apr-18	Yes	Live	Yes	District	
Welland Park CC	Medium	Yes		Apr-19	Yes	Live	Yes	Dataplan	Payroll move from EMSS to Dataplan 01/09/20
WQE and Regent College group	Large ER	Yes		Apr-20	Yes	Live	Yes	District	
Apollo Partnership Trust	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Asfordby Hill Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Ash Field Academy	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Ashby Hill Top Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Ashby School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Attenborough Learning Trust	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Barwell CoFe Academy	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Batting Brook Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Birkett House School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Bottesford CoFe Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Bradgate Education Partnership	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Castle Donington College	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Church Hill CoFe Junior School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Cobden Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
DISCOVERY SCHOOLS MAT	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Dorothy Goodman School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Falcon Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad / City	
Forest Way School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Frisby CE Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Gartree High School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Glebelands Prim Sch (City)	Acad - EMSS Oracle	Yes		Apr-20	Yes	Live	No	EMSS - Acad	
Hall Orchard Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Hastings High School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Herrick Primary School	Acad - City Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad / City	
Holywell Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Ibstock Community College	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Inspiring Primary Acad Partnership	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Ivanhoe College	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
King Edward VII S&S College	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Kirby Muxloe Primary School	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
LIFE Academy Trust	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
LIONHEART MAT	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad / EPM	
Loughborough CoFe Primary	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Lutterworth High School	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Measham CoFe Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Mountfields Lodge School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Odyssey Education Trust	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Old Dalby CoFe Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Outwoods Edge Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Oval Learning Partnership	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
OWLS MAT	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Queenborough CoFe Primary Sch	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Redmoor Academy	Acad - EMSS Fusion	Yes		Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Robert Bakewell Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	
Rothley CoFe Primary School	Acad - EMSS Oracle	Yes		Apr-19	Yes	Live	No	EMSS - Acad	

Scholars Academy Trust	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
South Charnwood High School	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
South Wigston High School	Acad - EMSS Fusion	Yes	Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
St Mary & St John Rutland	Acad - EMSS Oracle	Yes	Jun-19	Yes	Live	No	EMSS - Acad	
St Michael & All Angels CofE	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
St.Peters CofE Primary Academy	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
Stanton under Bardon Primary	Acad - EMSS Fusion	Yes	Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Stonebow Primary School	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
Success Academy Trust	Acad - EMSS Fusion	Yes	Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Symphony Learning Trust	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
The Kibworth School	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
The Learning without Limits AT	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
The Market Bosworth School	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
The Pastures Primary School	Acad - EMSS Fusion	Yes	Apr-19	Yes	Live	No	EMSS - Acad	Moved to Fusion payroll Oct-20
Thringstone Primary School	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
Thrusington CofE Primary Sch	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
Townlands CofE Primary Academy	Acad - EMSS Oracle	Yes	Apr-19	Yes	Live	No	EMSS - Acad	
<b>Outstanding Employers - Priority level 1 (16)</b>								
BEAUCHAMP (part of Lionheart)	EPM	No	1				EPM / EMSS Acad	Query progress
Brooke Hill Academy Trust	EPM	No	1				EPM	Query progress
CASTERTON B&E AT	EPM	No	1				EPM	Query progress
LEAD ACADEMY MAT	EPM	No	1				EPM	Query progress
Rutland CC (paid by EPM)	EPM	No	1				EPM / District	Query progress
St Therese of Lisieux / St Gilbert of Sempringham	EPM	No	1				EPM	Query progress
The Rutland Learning Trust	EPM	No	1				EPM	Query progress
Tudor Grange Academies Trust	EPM	No	1				EPM	Query progress
UPPINGHAM COMMUNITY COLLEGE	EPM	No	1				EPM	Query progress
Embrace AT (incl. Brockington College)	Large ER	Yes / No	1	Apr-19	Yes	Live / In progress	District	Working to go live 20/21
Rutland CC (paid in-house)	Large ER	No	1		Yes	In progress	District	Working to go live 20/21
Leicester College	Large ER	No	1		Yes	In progress	District	Working to go live 20/21
St Thomas Aquinas CMAT	Large ER	Partly	1				District/EMSS-Ac	Pushed back due to time and resources - go live 21/22
Stephenson Melton Brooksby Group (SMB)	Large ER	No	1				District	Further delay due to payroll merge pushed back to 21/22
The Vines Academy Trust	Large ER	N/A	1				EMSS - Acad	Query progress
Wigston Academies Trust	EMSS	No	1		Yes	In progress	EMSS	EMSS - await FFTF project / report
<b>Outstanding Employers - Priority level 2 (18)</b>								
BEACON ACADEMY MAT	Medium ER	No	2				District	
Better Futures MAT (Gateway) / GATEWAY 6TH FORM	EMSS	No	2		Yes	In progress	EMSS - Acad	EMSS - await FFTF project / report
Capita IT City of Leicester	Medium ER	No	2				Capita	
Capita IT City Rushey Mead	Medium ER	No	2				Capita	
Capita Services ex Charnwood	Medium ER	No	2				Capita	
The Futures Trust (Hinckley Academy)	Medium ER	No	2		Yes	In progress	District	Aim to handover Jan 21
Lady Jane Grey Primary School	Medium ER	No	2				District	
Limehurst Academy	Medium ER	No	2				District	
Lutterworth Academies Trust / Lutterworth College	Medium ER	No	2				District	
Midland Academies Trust	Medium ER	No	2		Yes	In progress	District	Aim to handover Jan 21
Nova Ed Trust (Melton Vale)	Medium ER	No	2				District	
Queensmead Primary Academy	Medium ER	No	2		Yes	In progress	District	Due to handover Jan 21
Rendell Primary School	Medium ER	No	2				District	
Rutland & District Schools' Federation, The	Medium ER	No	2				District	
SOUTH LEICS COLLEGE	Large ER	No	2		Yes	In progress	District	Aim to handover Jan 21
Turning Point (City Council)	Medium ER	No	2				District	
Turning Point (County Council)	Medium ER	No	2				District	
Woodbrook Vale School	Medium ER	No	2				District	
<b>Outstanding Employers - Priority level 3 (43)</b>								
A B M Catering Ltd	Small ER	No	3				District	
ANSTEY PARISH COUNCIL	Small ER	No	3				District	
ASHBY TOWN COUNCIL	Small ER	No	3				District	
Aspens (City Crown Hills)	Small ER	No	3				District	
Aspens (Lutterworth AT)	Small ER	No	3				District	
Aspens (Mowbray Ed Trust)	Small ER	No	3				District	
Aspens (Mowbray Ed Trust 2)	Small ER	No	3				District	
Aspens (Nova ET)	Small ER	No	3				District	
Bagworth & Thornton PC	Small ER	No	3				District	
Blaby Parish Council	Small ER	No	3				District	
Bradgate Park Trust	Small ER	No	3			Await FFTF	District	EMSS - await FFTF project
Caterlink (Fulhurst CC)	Small ER	No	3				Caterlink	
Caterlink (Tudor Grange AT)	Small ER	No	3				Caterlink	
Caterlink (Mead ET Primaries)	Small ER	No	3				Caterlink	
Caterlink (Mead ET Sec)	Small ER	No	3				Caterlink	
Caterlink (Mowbray Ed Trust)	Small ER	No	3				Caterlink	
Caterlink (WQE1 Group)	Small ER	No	3				Caterlink	
Chartwells	Small ER	No	3				District	
Churchill Contract Services	Small ER	No	3				District	
Cleantec Services (AET)	Small ER	No	3				District	
CSE (Robert Smyth Tudor Grange)	Small ER	No	3				District	
CSE (Samworth Tudor Grange)	Small ER	No	3				District	
Coombes Catering Ltd	Small ER	No	3				District	
East Goscote Parish Council	Small ER	No	3				District	
East West Community Centre Ltd	Small ER	No	3				District	
Fusion Lifestyle	Small ER	No	3				District	
G4S (City Council)	Small ER	No	3				G4S	
Grobby Parish Council	Small ER	No	3				District	
Kirby Muxloe PC	Small ER	No	3				District	
Mellors Catering Ltd	Small ER	No	3				District	
MCS Cleaning	Small ER	No	3				District	
Oakham TC	Small ER	No	3				District	
Quadron Services	Small ER	No	3				District	
Ridge Crest Cleaning	Small ER	No	3				District	
Rushcliffe Care Ltd	Small ER	No	3				District	
Ryhall CE Academy	Small ER	No	3				District	
Waterloo Housing Group (WHG, was Seven Locks / Pl)	Small ER	No	3				District	
SHEPshed TOWN COUNCIL	Small ER	No	3				District	
SILEBY PARISH COUNCIL	Small ER	No	3				District	
Solo Service Group (Leics CC)	Small ER	No	3				District	
Stephenson Studio School	Small ER	No	3				District	
Thurcaston & Cropston PC	Small ER	No	3				District	
Whetstone PC	Small ER	No	3		Yes	In progress	District	Due to handover Jan 21
<b>Inactive EE's / joined another ER / Left LGPS</b>								
Age Concern							District	No active members
AXIS Property Services (Melton BC)				Apr-19			District	No active members
BARROW UPON SOAR PC							District	No active members
Brocks Hill Primary				Apr-19			EMSS - Acad	Moved under Lionheart MAT or still under EPM????
Capita IT Crown Hills							District	No active members
Capita IT Judgmeadow CC							District	No active members
CORPUS CHRISTI MAT							District	No active members

Countesthorpe Leysland CC				Apr-19		District	CLCC moved from EMSS to LIFE Acad Trust
Future Cleaning Services						District	No active members
G Purchase Construction LTD						District	No active members
I Care						District	No active members
Mercenfeld Primary School				Apr-19		EMSS - Acad	Moved under Bradgate Ed Partnership
Oakthorpe D & A PC						District	No active members
Pinnacle Group						District	No active members
Prospects Services				Apr-19		District	Left LGPS
Spire Homes Limited						District	No active members
St Thomas Aquinas CMAT				Apr-19		EMSS - Acad / Disc	Left EMSS payroll Jul-19
Stafford Leys Comm Primary				Apr-19		EMSS - Acad	Moved under Bradgate Ed Partnership
Humphrey Perkins School	Medium ER	Yes	2	Sep-20	Yes	EMSS	Gone Live - part of Lionheart- moved to EMSS Acad
Martin High School, The	Medium ER	Yes	2	Sep-20	Yes	EMSS	Gone Live - part of Lionheart- moved to EMSS Acad
Leics Firefighters	Large ER	Yes		Apr-18	Yes	EMSS	New payroll provider from 01/07/20 to 31/12/20 - not moving to i-Connect, YE data to be provided.
G4S (Constabulary)	Small ER	No	3			G4S	Contract ended Jan 21

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**Appendix C - Leicestershire Pension Fund – Breaches Log (as at January 2021).**

Only key breaches are recorded. These are taken to the Local Pension Board.

<b>Date</b>	<b>Who identified the breach</b>	<b>Cause</b>	<b>Effect</b>	<b>Reaction</b>	<b>Wider Implications</b>	<b>Material or Not</b>	<b>If material – date reported to TPR</b>	<b>Outcome</b>
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 by the statutory	200 actives members annual benefit statements were not provided by the 31 August.	Prompt action taken by the Fund and the employer	Nil. Statements were received the year before	Not material	n/a	The employer resolved the queries by the end of September 2017. Statements were

		deadline	58,345 statements were produced by the 31 August.					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 employers had not completed	Delay in resolving scheme members benefits	Chair of Pension Board wrote to the	Potential increased costs for these	Not material	n/a	Only one employer has not responded to the letter. All other larger



		their scheme discretions	Increased likelihood of appeals made against these employers	employers	employers			employers have either provided their discretions or are doing so currently.
November 2018 to December 2020	Pensions Manager	New admission bodies and outsourcing employers 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  Escalated to Pension Board.	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	No material cases.	n/a	Following escalation to the Pension Board, all legal documents finally completed in 2020.  Scheme membership backdated to the date of transfer for the scheme members.
September 2019	Pensions Manager	One employer did not resolve all the payroll year-end queries by the statutory deadline	490 active members annual benefit statements were not provided by the 31 August.  Over 61,000	Prompt action being taken by the Fund and employer to resolve the remaining	Statements not received by the deadline. These members received statements in	Not material	n/a	The outstanding statements were produced following resolution of the remaining queries by the employer. All

			statements were produced by the 31 August	queries	previous years and have the online modeller available, should they wish to use it			were completed by December 2019
October 2020 to date	Pensions Manager	Prudential have moved administration systems.	The system move is creating delays for the Pension Section, when trying to resolve retirements for scheme members with in-house AVCs	Complaints from scheme members.  Delays in making payments.	Complaints to the Fund via IDRPs.  Increased administration time for Officers.  Reputational damage.	Not material – but under review	n/a	Escalated by the Pensions Manager at the Prudential and at Regional level.  Meeting taken place with Prudential's Managers and an escalation process has been implemented.  Prudential are working through the backlog of cases.

As at January 2021



# Leicestershire Local Government Pension Scheme

## Joint Administration and Communication Strategy

## Sections

1. Administration Strategy
2. Communication Strategy
3. General Data Protection Regulations (GDPR)
4. Performance Targets
5. Service Level Agreements

This document details two strategies, the administration and communication strategies for Leicestershire Local Government Pension Scheme. It also details the Pension Section performance targets and service level agreement for the Scheme's employers.

Leicestershire County Council as the Administering Authority of the Leicestershire Pension Fund is responsible for setting policies, strategies and statements to ensure the Fund's obligations to its members, employees and stakeholders are met. These are available [here](#).

**This Administration and Communication Strategy was approved by the Local Pension Committee on -**

**January 2021 – version four (draft)**

## **SECTION 1**

### **ADMINISTRATION STRATEGY**

#### **INTRODUCTION**

An administration strategy, as allowed for by the Local Government Pension Scheme, is seen as one of the tools which can help in delivering a high-quality administration service to the scheme member and other interested parties. Delivery of a high-quality administration service is not the responsibility of one person or organisation but is rather the joint working of a number of different parties.

This is the pension administration strategy statement of the Leicestershire County Council Pension Fund (LCCPF), administered by Leicestershire County Council (the administering authority). Employers in the Leicestershire Pension Fund have been consulted on regarding this document.

The strategy statement sets out the quality and performance standards expected of Leicestershire County Council in its role of administering authority and scheme employer, as well as all other scheme employers within the Leicestershire Fund. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

#### **BACKGROUND**

The LGPS represents a significant benefit to scheme members. Much of the success in promoting the scheme amongst scheme members and ensuring a high-quality service delivery depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme. Good quality administration can also help in the overall promotion of the scheme and remind or alert employees to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

The Fund comprises over 180 scheme employers with active members, and approximately 98,000 scheme members in relation to the Local Government Pension Scheme (LGPS). The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between several interested parties, including the administering authority and scheme employers.

## IMPLEMENTATION

The strategy statement was first put in place 1 April 2016 with several the Fund employers. The second version was effective from 1 October 2018. This revised fourth version is planned to become effective from 1 April 2021. This strategy statement sets out the expected levels of performance of both the administering authority and the scheme employers within the Leicestershire Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

Any enquiries in relation to this pension administration strategy statement should be sent to:

Ian Howe – Pension Manager

Leicestershire County Council Pension Fund

County Hall

Glenfield

Leicester LE3 8RB

[ian.howe@leics.gov.uk](mailto:ian.howe@leics.gov.uk)

Telephone: 0116 305 6945

## REGULATORY FRAMEWORK

The implementation of an Administration Strategy has regulatory backing in the form of the Local Government Pension Scheme Regulations 2013. These provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.

Regulation 59(1) enables an LGPS administering authority to prepare a document (“the pension administration strategy”) which contains such of the matters mentioned below as they consider appropriate: -

- Procedures for liaison and communication with their relevant employing authorities.
- The establishment of levels of performance which the administering authority and the relevant employing authorities are expected to achieve in carrying out their functions under the LGPS by-
  - (i) the setting of performance targets;
  - (ii) the making of agreements about levels of performance and associated matters; or
  - (iii) such other means as the administering authority consider appropriate;
- Procedures which aim to secure that the administering authority and the relevant employing authorities comply with the statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the administering authority and the relevant employing authorities to each other of information relating to those functions.
- The circumstances in which the administering authority may consider giving written notice to a relevant employing authority on account of that employer’s unsatisfactory performance in carrying out its functions under these Regulations when measured against levels of performance.
- Such other matters as appear to the administering authority to be suitable for inclusion in that strategy.

In addition, regulation 59(6) of the Administration Regulations also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employing authorities as well as to the Secretary of State. The Fund will meet this requirement by having the latest version available on its website. Similarly, when the strategy is revised at any future time the administering authority (after say a material change to any policies contained within the strategy) must notify all its relevant employing authorities and the Secretary of State.

It is a requirement that, in preparing or revising any pension administration strategy, that the administering authority must consult its relevant employing authorities and such other persons as it considers appropriate. A consultation took place with the Fund's employers prior to the publications of the previous version and following feedback changes were incorporated. Regard must be had by both the administering authority and employing authorities to the current version of any pension administration strategy when carrying out their functions under the LGPS Regulations.

In addition, regulation 70 of the Administration Regulations allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises, the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The following strategy statement, therefore, sets out the information required in accordance with regulation 59(1) and forms the basis of the day to day relationship between Leicestershire County Council as the administering authority and the employing authorities of the Leicestershire Pension Fund. It also sets out the circumstances under regulation 70 where additional costs are incurred as a result of the poor performance of a scheme employer, together with the steps that would be taken before any such action were taken.

## **LOCAL PENSION BOARD AND LOCAL PENSION COMMITTEE Governance of the Fund**

Leicestershire County Council has delegated the responsibility for decisions relating to the Leicestershire Pension Fund to the Local Pension Committee in accordance with Section 101 of the 1972 Superannuation Act. The Members who sit on the Local Pension Committee act on behalf of the beneficiaries of the LGPS and in this way have a similar role to trustees in primarily protecting the benefits of the LGPS members, overseeing the direction of investments and monitoring liabilities. The Committee's principal aim is to consider pensions matters with a view to safeguarding the interests of all pension fund members.

The Local Pension Board was established in accordance with Local Government Pension Scheme Regulations 2015. The responsibility of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS. Securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and, such other matters as the LGPS Regulations may specify. The Board maintains oversight of



Administration of the Fund through quarterly reports on performance against its key performance indicators and can report any areas of concern for consideration by the Local Pension Committee.

There is a statutory requirement for the Fund to maintain a Governance Compliance Statement and this is replicated within the Fund's Annual Report which sets out in more detail governance of the Fund.

## **RESPONSIBILITIES AND PROCEDURES**

### **Procedures for liaison and communication with employers**

The delivery of a high quality administration service is not the responsibility of just the administering authority, but depends on the joint working of the administering authority with a number of individuals in different organisations to ensure scheme members, and other interested parties, receive the appropriate level of service or ensure that statutory requirements are met.

Where new employers join the Fund or existing employers require assistance understanding their role and responsibilities, guidance will be provided.

This strategy statement has been developed following consultation with scheme employers and other interested parties. It takes account of scheme employers' current pension knowledge, perception of current administration standards and specific training needs to ensure the level of service can be delivered to the required standard.

### **Establishing levels of performance**

#### **Performance standards**

The LGPS prescribes that certain decisions be taken by either the administering authority or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Leicestershire Pension Fund should agree levels of performance between itself and the scheme employers which are set out in the service level agreement included in this strategy statement.

#### **Quality**

##### **Overriding legislation**

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and scheme employers will, as a minimum, comply with overriding legislation, including:

- Pensions Act 1995 and associated disclosure legislation;
- Freedom of Information Act 2000;
- Age Discrimination Act 2006;
- Data Protection Act 1998 and General Data Protection Regulations from May 2018;
- Disability Discrimination Act 1995;
- Finance Act 2004; and
- Health and Safety legislation.

Where agreed, the administering authority and scheme employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation. Such best practice standards are outlined in the section on timeliness set out below.

### **Internal standards**

The administering authority and scheme employers will ensure that all functions/tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- monthly data will be submitted by employers to the Pension Fund using Iconnect;
- information to be legible and accurate;
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately trained member of staff;
- information provided to be authorised by an agreed signatory; and
- actions carried out, or information provided, detailed within the sections and timescales set out in this document.

### **Timeliness and accuracy**

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme itself sets out several requirements for the administering authority or scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. Locally agreed performance standards have been proposed which cover all aspects of the administration of the scheme, where appropriate going beyond the

overriding legislative requirements. These locally agreed standards for the Leicestershire Pension Fund are attached to this strategy.

For the avoidance of doubt “accuracy” in this Strategy is defined as when we have received a completed form with no gaps in mandatory areas and with no information which is either contradictory within the document or which we need to query.

The timeliness relates to a date of event being either the date the member started or left the LCCPF or any other material change that affects a scheme member’s pension record.

### **Procedures for ensuring compliance with statutory requirements and levels of performance**

Ensuring compliance is the responsibility of the administering authority and scheme employers. We will work closely with all scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. We will also work with employers to ensure that overall quality and timeliness is continually improved. Various means will be employed, in order to ensure such compliance and service improvement, seeking views from as wide an audience as possible. These include:

#### **Audit**

The Leicestershire Pension Fund will be subject to annual audit of its processes and internal controls. The Leicestershire Pension Fund and scheme employers will be expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by Leicestershire County Council and where appropriate duly implemented (following discussions with scheme employers where necessary).

#### **Performance monitoring**

The Employing Authority may monitor performance against specific tasks set out in the service level agreement and return the information to the Leicestershire County Council Pension Section on an agreed basis.

Leicestershire County Council will monitor its own performance of the administering authority in carrying out its responsibilities in relation to the scheme.

#### **Improving employer performance (where necessary)**

The Pension Section will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the opportunity for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

Where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and /or unwillingness is shown by the employer to resolve the identified issue, the following sets out the steps we will take in dealing with the situation in the first instance;

- LCC Pensions will contact and/or meet with the employer to discuss the area(s) of poor performance and how they can be addressed.
- Where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, LCC Pensions will issue a formal written notice to the employer setting out the area(s) of poor performance that has been identified, the steps taken to resolve those area(s) and giving notice that the additional costs may now be reclaimed.
- LCC Pensions will clearly set out the calculations of any loss or additional costs resulting to the LCCPF/Administering authority, taking account of time and resources in resolving the specific area of poor performance; and
- LCCPF make a claim against the scheme employer, setting out the reasons for doing so, in accordance with the Regulations.

#### **CIRCUMSTANCES WHERE THE ADMINISTERING AUTHORITY MAY LEVY COSTS ASSOCIATED WITH THE EMPLOYING AUTHORITIES POOR PERFORMANCE**

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from an employing authority any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employing authority. Where an administering authority wishes to recover any such additional costs, they must give written notice stating: -

- The reasons in their opinion that the scheme employer's poor performance contributed to the additional cost;
- The amount of the additional cost incurred;

- The basis on how the additional cost was calculated; and
- The provisions of the pension administration strategy relevant to the decision to give notice.

## **CIRCUMSTANCES WHERE COSTS MIGHT BE RECOVERED**

Any additional costs to the Leicestershire Pension Fund in the administration of the LGPS that are incurred as a direct result of poor performance will be recovered from the scheme employer or third-party service provider, depending on the party which is responsible. The circumstances where such additional costs will be recovered from the employing authority are:

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information);
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets;
- failure to deduct and pay over correct employee and employer contributions to the Leicestershire Fund within the stated timescales;
- failure of a new Fund employer meeting its statutory duty when joining the Fund – for example unnecessary delays in completing an admission agreement, bond or other security as required by the Fund;
- instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body.

## **CALCULATION OF COSTS INCURRED**

For a persistent failure to resolve an isolated case satisfactorily or where an employer continues to fail to meet its statutory duty, the Fund will recharge costs from the point in time at which we write a formal letter to the scheme employer until the case is resolved, at a rate of £100 for each hour an officer spends trying to resolve the matter.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the rate of £100 per hour spent, from the point in time that the formal letter was sent, until performance improves.

Where the performance of the scheme employer results in fines or additional costs being levied against the Fund will recharge the full costs it has incurred to the relevant employer.

## **REVIEW PROCESS**

We will review our administration strategy to ensure it remains up to date and meets the necessary regulatory requirements at least every two years.

## **CONSULTATION**

In preparing the administration strategy the Pension Section consulted with the relevant employing authorities and other persons considered appropriate.

The relevant employing authorities must be notified in writing of the final changes and where a copy of the revised strategy may be obtained.

## **SECTION 2**

### **COMMUNICATION STRATEGY**

#### **INTRODUCTION**

This is the Communications Policy Statement of the Leicestershire County Council Pension Fund.

The Fund liaises with over 180 employers and approximately 98,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with several other interested parties. This statement provides an overview of how we communicate and how we measure whether our communications are successful.

The communication strategy has been in place since 1 April 2016. Any enquiries in relation to this Communication Policy Statement should be sent to:

Pensions Manager  
Leicestershire County Council  
County Hall  
Glenfield  
Leicester, LE3 8RB

## **REGULATORY FRAMEWORK**

This policy statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provision requires us to:

*“prepare, maintain and publish a written statement setting out their policy concerning communications with:*

- (a) members;*
- (b) representatives of Members*
- (c) prospective Members;*
- (d) employing Authorities.”*

In addition, it specifies that the statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*
- (b) the format, frequency and method of distributing such information or publicity;*
- (c) the promotion of the Scheme to prospective members and their employing authorities.”*

## **Responsibilities and Resources**

Within the County Council’s Pensions Section the responsibility for communication material is performed by the Pension Manager with the assistance of one or more senior pension officers.

The team write and design all communications including any web based or electronic material. They are also responsible for arranging all forums, workshops and meetings covered within this statement. Though we write all communication within the section, all design work is carried out by the Council’s publications team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement.

Printing is carried out internally by the Council’s printing department or externally where this is more cost effective.

## COMMUNICATION WITH KEY AUDIENCE GROUPS

Our audience

We communicate with several stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members and their employing authorities;
- Local Pension Board and Committee Representatives; and
- other stakeholders.

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenues and Customs, MHCLG, The Pensions Regulator, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

### *General communication*

General day to day communication will continue to be paper based. However, we will complement this by use of electronic means such as e-mail, online communications and our scheme member website: <https://leicsmss.pensiondetails.co.uk/>

Employers can access information to assist them via our dedicated employer website; [www.leicestershire.gov.uk/pensions](http://www.leicestershire.gov.uk/pensions).

In accordance with County Council policy, large scale communications, such as annual statements, P60s and pension payslips will be provided electronically whenever possible. Members and pensioners can request exemption from this upon written/telephone request, and give instruction that communications continue to be paper based. It is therefore the default that annual benefit statements can be found on-line with a modeller for scheme members to run their own estimates. The Pensions Online system can be found at: <https://leicsmss.pensiondetails.co.uk/>

### *Branding*

As the Pension Fund is administered by Leicestershire County Council, literature and communications will conform with the branding of the Council.



### *Accessibility*

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically.

## **POLICY ON COMMUNICATION WITH ACTIVE, DEFERRED AND PENSIONER MEMBERS**

Our objectives regarding communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- to better educate and explain to members the benefits of the LGPS.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to improve the take up of the LGPS by employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

<b>Type</b>	<b>Media</b>	<b>Frequency</b>	<b>Method of Distribution</b>	<b>Audience Group (Active, Deferred, Pensioner or All)</b>
Membership Form with cover letter "F" (Auto enrolment compliant)	Paper based but introducing on-line	On commencing employment	Issued via employer but introducing on-line via Member Self-Service	New employees
Pension Fund Report and Accounts	Pensions website	Annually	Paper copies can be requested	All
Annual Benefit	Generally on-line but	Annually	On-line or posted to	Active and Deferred

Type	Media	Frequency	Method of Distribution	Audience Group (Active, Deferred, Pensioner or All)
Illustrations	paper still available		home address.	
Information about the Scheme	On Pensions website	n/a	n/a	All
Online education sessions and presentations	Online	On request by employers/member group (subject to available resource)	On request	Actives and employers
Helpdesk	Phone and email	Daily	Phone calls and email replies to Members queries	All

#### *Explanation of communications*

Membership form – Introductory guidance providing an overview of the LGPS, including how much it costs, the retirement and death benefits and how to access further information from the website. Letter F provides details that are compliant with auto-enrolment disclosure and how a member can obtain an opt-out form. This is also being introduced on-line.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Annual Benefit Illustrations – For active members these include the current value of benefits. The associated death benefits are also shown and whether the member has nominated person(s) to receive the lump sum death grant. In relation to deferred members, the benefit statement includes the current value of the benefit.

Website – There is a designated Leicestershire County Council Pensions information website <https://leicsmss.pensiondetails.co.uk/> Members and pensioners have access to online pension accounts to view and print annual statements, P60s, payslips. Members can also run their own estimates on-line.

*This is complemented by a national Local Government Pension Scheme website freely available <https://www.lgpsmember.org> which will provide*

*scheme specific information, frequently asked questions and answers, links to related sites etc.*

**On-line education sessions and presentations** – These are sessions that are available on request for groups of members. For example, where an employer is going through a restructuring or review, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights or a general overview of the scheme is requested.

**Helpdesk** – This is being introduced by the Pension Section in 2021 to assist scheme members with their calls and email enquiries. It is being designed to try and enable the first person receiving the call or email to be able to resolve it without the need to refer the scheme member to other Pension colleagues, thereby improving the customer experience and generate efficiency.

**Administration Charges** - The Pension Section can charge scheme members for certain divorce work, reinstatement work and multiple member estimates. The charge is to cover administration time spent on these cases. The Pension Regulator Code of Practice 14 Governance and Administration of Public Service proposed that it is permissible under Disclosure Regulation that additional information can be made available at a charge.

<b>Work Item</b>	<b>Charge</b>
Divorce – Initial CETV	No charge
Divorce – Additional CETV within 12 months	As required, charged at £150 plus VAT
Divorce – Provision of other information	As required, charged between £150 and £725 plus VAT
Divorce – Receipt of pension sharing order or consent order and to establish a new or prospective pensioner record	As required, charged at £475 plus VAT
Divorce – Assuming all documents are in place, settle a transfer out	As required, charged at £250 plus VAT
Estimate - Additional Member Initiated Estimate (within 12 months)	Annual Benefit Statement – no charge One additional written estimate within 12 months – no charge  On-line estimates – no charge  Additional estimates charged at £100 each plus VAT
Reinstatement of Benefits (and/or associated work) – Where a member has transferred out to an alternative Pension arrangement and work is	£475 plus VAT – per case

required to determine any potential loss of benefits	
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The charges may be amended each year in line with inflationary changes.

### **POLICY ON PROMOTION OF THE SCHEME TO PROSPECTIVE MEMBERS AND THEIR EMPLOYING AUTHORITIES**

Our objectives regarding communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.

As we, in the County Council's Pension Section, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

<b>Method</b>	<b>Media</b>	<b>Frequency</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Membership Form with cover letter "F" (Auto enrolment compliant)	Paper based and on-line	On commencing employment	Issued via employer and on the Pension Sections on-line Member Self-Service	New employees

### **POLICY ON COMMUNICATION WITH EMPLOYING AUTHORITIES**

Our objectives regarding communication with employers are:

- to strengthen relationships.
- to assist employers, understand their role and responsibilities.
- to assist employers in understanding costs/funding issues.
- to work together to maintain timely and accurate data.
- to provide a secure way to transfer data to the Fund on a monthly basis.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.

- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

<b>Method</b>	<b>Media</b>	<b>Frequency</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Employers Information	Pensions website	At joining and updated as necessary	<a href="http://www.leicestershire.gov.uk/pensions">www.leicestershire.gov.uk/pensions</a>	Main contact for all employers
Bulletins	Electronic (e-mail)	When required	E-mail	All contacts for all employers
Valuation meeting	Virtual	Tri- Annually	Invitations by e-mail/post	All contacts for all employers
Pension Fund Report and Accounts	Pensions website	Annually	E-mail	Main contact for all employers
Meeting with Managers	Virtual	On request	E-mail	Senior management involved in funding and HR issues.
IConnect	On-line secure website	Monthly data submissions	On-line secure transfer of data – IConnect	Main data submission route for all current and new employers

#### *Explanation of communications*

Employers Information – Employer information is available on the employer’s area of the Fund website.

Bulletins – A technical briefing that will include recent changes to the scheme, the way the Pension Section is run and other relevant information to keep employers fully up to date.

Valuation meeting – A formal seminar style event with several speakers covering topical LGPS issues.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Manager meeting – Gives employers the opportunity to discuss their involvement in the scheme with Pension staff.

IConnect – Provides a secure route for employers to submit their monthly pension data to the Pension Section. There are two solutions available depending on the size of scheme membership at the employer.

## **POLICY ON COMMUNICATION WITH LOCAL PENSION BOARD AND LOCAL PENSION COMMITTEE REPRESENTATIVES**

Employee and Employer representatives sit on both the Local Pension Board and Local Pension Committee.

Our objectives regarding communication with Board and Committee representatives;

- to ensure they are aware of their responsibilities in relation to the scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme

Our objectives will be met by providing the following communications:

<b>Method</b>	<b>Media</b>	<b>Frequency</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Virtual education sessions	Virtual	When Local Pension Board and Local Pension Committee meet and as and when required	Virtual or via the Local Government Employers organisation	All members of the Pension Board and Committee
Local Pension Board and Local Pension Committee Meetings	Meeting	Quarterly or as required	Attendees of the Board and Committee	All

### *Explanation of communications*

Training Sessions – that provide a broad overview of the main provisions of the LGPS, and elected member's responsibilities within it.

Local Pension Committee – The meeting consists of 10 Employer Representatives and 3 Employee Representatives and has responsibility for the management of the Pension Fund.

Local Pension Board The meeting consists of equal number of Employer and Employee Representatives and is broadly focused on helping the Scheme Manager (the Administering Authority) manage pension scheme administration.

## **POLICY ON COMMUNICATION WITH OTHER STAKEHOLDERS/INTERESTED PARTIES**

Our objectives regarding communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's AVC scheme

Our objectives will be met by providing the following communications:

<b>Method</b>	<b>Media</b>	<b>Frequency</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Pension Fund valuation reports	On-line or email	Every three years	On-line or email	MHCLG/Her Majesty's Revenues and Customs (HMRC)/all scheme employers
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	MHCLG/HMRC/the Pensions Regulator

### *Explanation of communications*

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three-year period commencing one year from the valuation date

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that may be received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

## **SECTION 3**

### **GENERAL DATA PROTECTION REGULATIONS (GDPR)**

In May 2018 the General Data Protection Regulations (GDPR) came into force.

The Pension Section followed Leicestershire County Council's corporate plan in dealing with this. The regulations are designed to protect scheme member's data.

The Pension Section and employers are both deemed data controllers so there is no requirement for a data sharing agreement to be in place; i.e. there is no legal requirement for employers to have a data sharing agreement.

There is a requirement for two statements to be available and these are;

- Memorandum of understanding for employers
- Fair processing notice

These are available on our website

<https://www.leicestershire.gov.uk/jobs-and-volunteering/working-for-the-council/local-government-pensions/pensions-data-sharing>

The Pension Section has incorporated GDPR into information provided to new scheme members on the pension scheme membership form and welcome letter. Employers should inform all new employees that their personal data is shared with Leicestershire County Council Pension Section, for the County Council to meet its statutory responsibility of administering the Leicestershire Local Government Pension Scheme.



**SECTION 4****PERFORMANCE TARGETS**

To measure the success of our communications with active, deferred and pensioner members, we will use the following key performance indicators:

**Timeliness**

We will aim to meet the following target delivery timescales:

<b>Communication</b>	<b>Audience</b>	<b>Target delivery period</b>
Benefit Statements as at 31 March	Active members	31 August each year
Pension Saving Statements as at 31 March	Active members who breach the Annual Allowance pension growth tax threshold	6 October each year
Issue of retirement benefits	Active members retiring	92% of retirement benefits to be issued within 10 working days of receiving all the necessary information.
Payment of pension benefits	Active members retiring	95% paid within 10 working days of receiving election.
Notification of death related benefits	Dependants of scheme members	90% within 10 days of death notification paperwork.

**Customer experience**

<b>Feedback media</b>	<b>Perspective</b>	<b>Target</b>
Paper questionnaire issued	Establish members understanding of information provided – rated at least mainly ok or clear	95%
Paper questionnaire issued	Experience of dealing with Section – rated at least good or excellent	<u>95%</u>
Paper questionnaire issued	Establish members thoughts on the amount of info provided – rated as	92%

	about right	
Paper questionnaire issued	Establish the way members are treated – rated as polite or extremely polite	97%
Email survey	Rated as understandable (good or above)	95%
Email survey	Detail of content (good or above)	92%
Email survey	Timeliness of response (good or above)	92%

### **REVIEW PROCESS**

We review the performance targets annually.

**SECTION 5****SERVICE LEVEL AGREEMENTS****BY THE ADMINISTERING AUTHORITY**

<b>Function / Task</b>	<b>Performance target</b>
<b>LIAISON AND COMMUNICATION</b>	
Publish and keep under review the Leicestershire Pension Fund administration strategy	Within one month of any changes being agreed with scheme employers
Keep up to date the web-based Employer's guide	Continual process
Issue and keep up to date all forms required for completion by either scheme members, prospective scheme members or scheme employers	30 working days from admission of new employer or date of change/amendment
Formulate and publish policies in relation to all areas where the administering authority may exercise a discretion within the scheme	Within 30 working days of policy being agreed by the related Board
Deliver training sessions for scheme employers	Upon request from scheme employers, or as required
Notify scheme employers and scheme members of changes to the scheme rules	Within 30 working days of the change(s) coming into effect
Notify scheme employer of issues relating to scheme employer's poor performance (including arranging meeting if required)	Within 10 working days of performance issue becoming apparent
Notify scheme employer of decision to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due)	Within 10 working days of scheme employer failure to improve performance, as agreed
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August
Issue pension saving statements to active members who breach the Annual Allowance pension growth tax threshold as at 31 March each year	By the following 6 October
Issue annual benefit statements to deferred benefit members as at 31 March each year	By the following 31 August

<b>FUND ADMINISTRATION</b>	
Issue formal valuation results (including individual employer details)	10 working days from receipt of results from fund actuary (but in any event no later than 31 March following the valuation date)
Carry out interim valuation exercise on cessation of admission agreements or scheme employer ceasing participation in the Leicestershire Pension Fund	Upon each cessation or occasion where a scheme employer ceases participation on the Leicestershire Pension Fund
Arrange for the setting up of separate admission agreement funds, where required (including the allocation of assets and notification to the Secretary of State)	Within 3 months of agreement to set up such funds
All new prospective admitted bodies to undertake, to the satisfaction of the Leicestershire Pension Fund, a risk assessment of the level or bond required in order to protect other scheme employers participating in the pension fund	To be completed before the body can be admitted to the Leicestershire Pension Fund
All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the fund	Annually, or such other period as may be agreed with the administering authority
Publish, and keep under review, the fund's governance policy statement	Within 30 working days of policy being agreed by the relevant Board
Publish and keep under review the Pension Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the fund's actuary. Revised statement to be issued with the final valuation report

Publish the Pension Fund annual report and any report from the auditor	By 31 December following the year end
<b>SCHEME ADMINISTRATION</b>	
Make all necessary decisions in relation to a scheme member and issue combined statutory notification to new scheme member (including aggregation of previous LGPS membership)	1 month from receipt of all necessary information
Provide responses to scheme members/scheme employers/personal representatives/dependents and other authorised persons	10 days from receipt of all necessary information
Provide transfer-in quote to scheme member	1 month from receipt of all necessary information
Confirm transfer-in payment and membership change to scheme member	10 days from receipt of all necessary information
Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement	10 days from receipt of all necessary information
Calculate cost of additional pension contributions, and notify scheme member	1 month from receipt of all necessary information
Notify scheme employer of scheme member's election to pay/cease/amend additional pension contributions and/or additional voluntary contributions	10 days from receipt of all necessary information
Provide requested estimates of benefits to employees / employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency. <i>(Since the introduction of the £95K Exit Cap in November 2020 estimates that generate capital costs, other than ill health, must be initiated by the employer).</i>	1 month from receipt of all necessary information
Notify leavers of deferred benefit entitlements	Within 2 months of receipt of all necessary information
Provide details of estimated Transfers Out	Within 1 month of receipt of all necessary information
Payment of Transfers Out	10 working days of receipt of all necessary information

Notify retiring employees of options, enclosing appropriate forms	10 working days of receipt of all necessary information <b>KPI</b>
Payment of retirement Lump Sum and pension	Lump sum -10 working days of receipt of all necessary information after retirement Pension – Paid in the next available pay run, thereafter the last banking day of each month <b>KPI</b>
Death notifications – issue initial letter requesting certificates	5 working days following notification of death
Notification of survivor benefits	10 working days of receipt of all necessary information <b>KPI</b>
Appoint stage 2 “appointed person” for the purposes of the pension dispute process and notify all scheme employers of the appointment	Within 30 working days following the resignation of the current “appointed person”
Process all stage 2 pension dispute applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.
Publish and keep under review the Leicestershire Pension Fund policy on the abatement of pension on re-employment	Notify scheme employers and publish policy within one month of any changes or revisions to the policy
Load employer’s monthly data received via IConnect	Within 1 month of receiving all the necessary information.

**BY THE SCHEME EMPLOYER**

Function / Task	Performance Target
<b>LIAISON AND COMMUNICATION</b>	
Formulate and publish policies in relation to all areas where the employing authority may exercise a discretion within the scheme (including providing a copy of the policy decision(s) to the Leicestershire Pension Fund	Within 30 working days of policy being formally agreed by the employer. Ideally review these annually by 30 June.
Remit and provide details of total employer/employee contributions	9 <sup>th</sup> working day of month after deduction
Respond to enquiries from administering authority	10 working days from receipt of enquiry
Provide year end information required by the Leicestershire Pension Fund for valuation purposes and for individual scheme members annual benefit statements, annual allowance and lifetime allowance calculations, in a format agreed with the Leicestershire Pension Fund	By 30 <sup>th</sup> April following the year end, due to the earlier closure of the accounts.
Ensure payment of additional costs to the Leicestershire Pension Fund associated with the poor performance of the scheme employer	Within 30 working days of receipt of invoice from the Leicestershire fund
Distribute any information provided by Leicestershire Pension Fund to scheme members/potential scheme members	Within 15 days of its receipt
Notification to the Leicestershire Pension Fund (so they can liaise with actuary) of material changes to workforce/assumption related areas (e.g. restructurings/pay reviews/employer going to cease/ contracting out of services).	No later than 10 working days after material change / formal employer agreement on assumption related areas
Provide new/prospective scheme members with scheme information and new joiner forms	5 working days of commencement of employment or change in contractual conditions
Inform LCCPF of all cases where a prospective new employer or admitted body may join the fund	Notify LCCPF at least 3 months <u>before</u> the date of transfer
<b>FUND ADMINISTRATION</b>	

Function / Task	Performance Target
Payment of additional fund payments in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement	Within 30 working days of receipt of invoice from the Leicestershire Pension fund / within timescales specified in each case

<b>EMPLOYER ADMINISTRATION</b>	
<p><b>New Starter</b> Make all necessary decisions in relation to new scheme members in the LGPS (whether full or part time, pensionable pay, appropriate contribution rate band, etc)</p>	10 working days of scheme member joining
<p><b>New Starter</b> Provide administering authority with scheme member details on appropriate form/via electronic interface. Issue starter form to new employee.</p>	10 working days of scheme member joining/from month end of joining
<p><b>Pension Contributions</b> Arrange for the correct deduction of employee contributions from a scheme members pensionable pay on becoming a scheme member</p>	Immediately on joining the scheme, opting in or change in circumstances
<p><b>Pension Contributions</b> Ensure correct employee contribution rate is applied and arrange for reassessment of employee contribution rate in line with employer's policy</p>	Immediately upon commencing scheme membership, reviewed as per policy
<p><b>Pension Contributions</b> Ensure correct rate of employer contribution is applied</p>	Immediately following confirmation from the administering authority of appropriate employer contribution rate
<p><b>Pension Contributions</b> Ensure correct deduction of pension contributions during any period of child related leave, trade dispute or other forms of leave of absence from duty</p>	Immediately, following receipt of election from scheme member to make the necessary pension contributions
<p><b>Pension Contributions</b> Commence/amend/cease deductions of additional regular contributions</p>	Commence/amend in month following election to pay contributions or notification received from administering authority, cease immediately following receipt of election from scheme member



<p><b>Pension Contributions</b> Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)</p>	<p>Commence deduction of AVCs in month following the month of election Pay over contributions to the AVC provider(s) by the 19<sup>th</sup> of the month following the month of election</p>
<p><b>Pension Contributions</b> Refund any employee contributions when employees opts out of the pension scheme before 3 months</p>	<p>Month following month of opt out</p>
<p><b>Pension Contributions</b> Cease deduction of employee contributions where a scheme member opts to leave the scheme</p>	<p>Month following month of election, or such later date specified by the scheme member</p>
<p><b>End of year</b> Send a completed end of year detailed contribution spreadsheet used for valuation purposes and for individual scheme members annual benefit statements, annual allowance and lifetime allowance calculations, in a format agreed with the Leicestershire Pension Fund</p>	<p>By 30<sup>th</sup> April following the year end, due to the earlier closure of the accounts.</p>
<p><b>Monthly Pensions Return</b> Provide administering authority with a monthly pension return.</p>	<p>By the 15<sup>th</sup> of the following month.</p>
<p><b>Leavers</b> Determine reason for leaving and provide notification to administering authority of scheme leavers</p>	<p>Within 30 days of leaving</p>
<p><b>Retirement</b> Determine reason for retirement and provide notification to administering authority of retiree</p>	<p>Within 10 working days of notification of intention to retire</p>
<p><b>Estimates</b> Initiate any estimates, (other than ill health), that generate a capital cost following the introduction of the £95K Exit Cap rules in November 2020</p>	<p>Within 10 working days of notification of members or employers estimate request</p>
<p><b>Final Pay</b> Provide CARE and final pay information for each scheme member who requires an estimate, leaves/retires/dies and forward to Leicestershire Pension Fund on appropriate form/via electronic interface</p>	<p>Within 10 working days following date of estimate request/leaving/retirement/death</p>

<p><b>Employer appointments</b>          Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment with Leicestershire Pension Fund</p>	<p>Within one month of commencing participation in the scheme or date of resignation of existing medical adviser</p>
<p><b>Employer appointments</b>          Appoint person for stage 1 of the pension dispute process and provide full details to the administering authority</p>	<p>Within 30 working days following the resignation of the current “appointed person”</p>
<p><b>IConnect – Monthly Posting*</b>          Submit pension data via the secure IConnect employer self-service module</p>	<p>By the end of the following month</p>

\*Monthly submission of pension data for the LGPS is currently not mandatory under the Local Government Pension Scheme Regulations, however The Pension Regulator determines a governance requirement of every Pension Fund is to have a data improvement plan in place.

The Leicestershire Funds data improvement plan requires receipt of accurate and timely data from employers via monthly data submissions.

The Pension Manager is extremely keen to continue the positive implementation of monthly postings using IConnect with all employers.

The deadline for all employers to implement monthly posting using IConnect is 31 March 2022. If you require further information about IConnect please phone the Pension Section on Tel 0116 305 5052.

This is designed to assist both employers and the Pension Section manage the year-end process, but ultimately benefits scheme members who will be able to view their most timely and accurate pension data, using the member self-service online system.

**January 2021 version 4 (draft)**



**LOCAL PENSION BOARD - 8 FEBRUARY 2021**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION SECTION – EMPLOYER RISKS AND EXITS**

**Purpose of the Report**

1. The purpose of this report is to inform the Board of proposals to amend the Fund's Funding Strategy Statement following regulation changes on employer risks and exits and to inform the Board of a consultation with the Fund's Employers on the proposed changes.

**Background**

2. Pension Fund Officers already monitor employer risk, and these were considered at the last Pension Fund Valuation.
3. At the valuation employers were grouped by risk and this was used to determine some factors when assessing their contributions and deficit recovery repayment terms.
4. The Pension Fund also manages the risk of higher risk employers having to fund unexpected costs by requiring them to have a bond to cover potential redundancy situations, and also having ill health insurance in place. In the event that an employer is in serious financial failure and unable to pay pension strain costs the Fund can call upon the bond. The bond will then be paid to the Fund to cover the value required. This acts as a security for the Fund.
5. Officers monitor the bond values and their termination dates and arrange extensions or changes to the bond values, as required.
6. When an employer exits the Fund, Officers request a cessation termination value from the Fund Actuary and the employer usually pays the value as a single payment. However, there are some occasions when this is not possible, and the employer and Officers work together to form a repayment plan.

7. Currently there are five closed Community Admission Bodies (CABs) in the Fund. These tend to be older Fund employers without a guarantor or security, with either none or a very small number of active members, but still retain a Fund deficit.
8. At the last valuation the CABs were offered opportunity to crystallise their deficit positions and set up repayment plans with the Pension Fund. One CAB chose to do this and is making its repayment contributions. On receipt of the final payment, this employer will then be able to “walk away” from the Fund having fully met its Fund responsibilities.
9. The CABs that did not chose to crystallise their deficit plans will be assessed again at the next valuation, or earlier if the employer requests it.

### **Changes**

10. On the 23 September 2020 new Regulations regarding employer risk came into force. These Regulations are named - Local Government Pension Scheme (Amendment) (Number 2) Regulations.
11. Whilst there is no requirement for the Fund to use any of the new powers, however it is useful to note that some of the Regulations changes support what the Fund already does. These Regulations effectively fall into three areas;
  - i. **Review of employer contributions** – Currently officers monitor the risk of the Funds employers. However, the Regulations now require the Fund to have a policy on when a review of employer contributions is necessary (outside of the formal Fund valuation process) and the process the Fund will take in doing so.

Areas that should be included are;

- a. Factors the Fund will use to determine whether a contribution review for an employer or a group of employers should take place, taking into account actuarial advice.
- b. How the Fund will assess the risk/impact of an employer contribution on other fund employers.
- c. How an employer will be involved in a contribution review and the Fund’s procedure on consulting other potentially impacted employers.
- d. The periods in the triennial valuation cycle during which the Fund considers it may be inappropriate to conduct a review.
- e. That the Fund will take actuarial advice on the calculation of an employer’s revised contribution rate considering the following;
  - i. The scale of the liability change
  - ii. Changes in the employer’s covenant and their ability to meet obligations to the Scheme
- f. The process required for an employer to apply for a review, the evidence they are required to submit, and how the cost to the employer will be calculated.

Other areas that should be covered are;

- g. Timetable for the review, noting this may vary.
- h. How any change in contribution rate and the employer's circumstances may be monitored after implementation and a statement that employers will be required to support any reasonable information requests in order to allow effective monitoring of the changes in covenant.

#### The Fund's approach to a Review of Employer Contributions

12. The Fund is not minded allowing reviews of employer contributions as this is the purpose of the Fund's valuation. However, in one exceptional circumstance the Fund may consider it if an employer contacts the Fund in writing.
13. The exceptional circumstance is if an employer is in genuine financial difficulty and this option increases the chance of repayment. The employer will need to provide evidence of the reason within six months of the change.
14. The Fund would only consider this if this was the least risk option to other Fund employers, and if the original outsourcing employer (if applicable) agrees, and acts as guarantor. The Fund would also assess the potential to put additional security in place and seek actuarial advice in all cases.
15. Ideally the Fund would not consider requests if it is within 12 months of the next valuation the Fund, however if the employer can prove their financial difficulty is imminent, the Fund would consider allowing the review.
16. The Fund proposes a legal document would be prepared by the Fund and must be signed by all relevant parties prior to allowing a change in rate. The document would include how future assessments of the case would be made, but ideally the employer would resort back to the standard actuarial assessment and employer rate setting, at the next valuation.
17. If there is no guarantor, the Fund would seek a clause in the legal document acting as priority over security of the employer's assets, effectively acting as though the Fund is a secured creditor.
18. All costs of the arrangement to be met by the employer, such as the cost of advice to the Fund.
19. All cases will be taken to the Local Pension Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chairman in consultation with Officers if an urgent decision is required between Committee meetings.
20. The Fund's approach to this change is included on page 14 in the Fund's proposed Funding Strategy Statement – see Appendix A.

**ii. Spreading exit payments** – When an employer last active member leaves the scheme the cessation termination value is calculated. Usually the exiting employers pays the value as a single amount. However, there are rare occasions when the employer requests the payment is spread over a period of time. Officers already allow this to happen in exceptional circumstances and this Regulation change supports this action.

21. The Regulations now require the Fund to have a policy on when the Fund will allow spreading exit payments and the process the Fund will take in doing so.

Areas that should be included are;

- a. Factors the Fund will use to determine whether an employer's exit payment should be spread (taking account of actuarial advice, covenant, legal and other advice as necessary).
- b. Circumstances the Fund considers it will not be appropriate to spread an exit payment.
- c. The appropriate length of time for an exit payment to be spread, including its maximum period.
- d. The process the Fund will adopt for consulting the Fund employer.
- e. Evidence the Fund will require from an employer to consider spreading an exit payment.
- f. How the Fund will inform an employer of its decision and matters such as
  - i. The spreading period
  - ii. Annual payments
  - iii. Interest rates
  - iv. Other costs payable
  - v. Responsibility of the employer during the repayment period
- g. The Fund's approach to monitoring the exit period and circumstances which could trigger a review.

Other areas that should be covered are;

- h. Timetable for the review, noting this may vary.
- i. The Fund will take actuarial, covenant, legal and other advice as necessary in considering a case, and,
- j. The process for employers to share updated information if/when their circumstances change to allow effective monitoring of the arrangement.

#### The Fund's approach to a Spreading Exit Payments

22. Whilst the Fund still prefers payment of the cessation amount as a single value the Fund is willing to allow this in exceptional circumstance if the employer requests this in writing.

23. The exceptional circumstance is if an employer is in genuine financial difficulty and this option increases the chance of repayment.
  24. The Fund proposes spreading the amount by no more than three years, but this could be extended in extreme circumstances.
  25. The Fund would consider written requests from exiting employers within six months of exiting the Fund and would require detailed financial information from them to support their request for spreading.
  26. The fund would take into account the amount of any security offered and seek actuarial and legal advice in all cases.
  27. The Fund proposes a legal document would be prepared by the Fund and must be signed by all relevant parties prior to allowing a spreading of the exit payment. Interest would be added to the cessation value to account for the period the spreading covered, and payments would be made on a monthly basis until full payment is received. The first payment would start as quickly as possible after confirmation of the cessation value and the repayment plan would be written into the legal document.
  28. The Fund would monitor payments from the employer and if any payment was breached the full remaining cessation amount would be requested.
  29. All cases will be taken to the Local Pension Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chairman in consultation with Officers if an urgent decision is required between Committee meetings.
  30. The Fund's approach to this change is included on page 18 in the Fund's proposed Funding Strategy Statement – see Appendix A.
- iii. Deferred Debt Agreements (DDA)** – This introduces a new “deferred employer status” and deferred debt agreements for exiting employers. This formally allows Secondary contributions to be certified for employers with no active members who have not paid their cessation termination value in full.
31. The Regulation allows the Secondary contributions to be subject to review at formal Fund valuations and the DDA must set out the period over which the arrangement will run. This offers similar employer flexibilities to spreading exit payments, but without crystallising the debt. However, the key difference is that the employer remains invested within the Fund and its funding position will ultimately change at subsequent valuations – which may positively or negatively affect the employer. Given the level of prudence established in all funding plans, the expectation is that this arrangement would benefit the employer

through positive investment performance and the ability to wind down some of its liabilities over time.

32. Areas that should be included are;
- a. Factors the Fund will use to determine whether to enter into a DDA with an employer (taking account of actuarial advice)
  - b. Circumstances the Fund considers it will not be appropriate to enter in a DDA
  - c. The process the Fund will adopt for consulting with the exiting fund employer
  - d. Evidence the Fund will require from a Fund employer to consider a DDA, including the cost and timing of an application, noting the requirement for actuarial advice and covenant, legal or other advice as applicable.
  - e. Matters the Fund expects to include in the DDA, including;
    - i. Responsibilities of the deferred employer
    - ii. Conditions triggering the implementation of a recovery plan
    - iii. Circumstance triggering a cessation of the arrangement leading to an exit payment becoming payable
  - f. Fund's approach to monitoring a DDA and the circumstances in which the Fund may consider;
    - i. Approaching the employer to seek to agree a variation to the length of the agreement, and,
    - ii. Serving notice on the fund employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the arrangement has weakened or is likely to weaken materially in the next 12 months.
33. Other areas that should be covered are;
- g. Timetable for the review, noting this may vary.
  - h. The Fund will take actuarial, covenant, legal and other advice as necessary in considering a case, and,
  - i. The process for employers to share updated information if/when their circumstances change to allow effective monitoring of the arrangement.

#### The Fund's approach to a Deferred Debt Agreement

34. By virtue of the old CABs in the scheme that have not crystallised their debts the Fund already provides for this. However, the Fund would not wish to allow new cases to arise, instead using the "spreading exit payment" route for future cases.
35. The only time the Fund would consider a DDA is if payment of the crystallised cessation value, even with spreading payments, was to create a high risk of bankrupting the exiting employer.



36. If this was to occur the Fund would work closely with the exiting employer, Fund Actuary, Fund and employer's Legal Teams and any other relevant parties, to sign a legal document produced by the Fund detailing repayment terms based on an ongoing basis. The Fund would still wish to move the employer to the spreading exit payment route as soon as this became viable and the cessation termination was suitable.
37. The Fund would wish to have some form of security in place, e.g. a bond that the Fund could call upon if the employer became bankrupt. Fund Officers would monitor the financial position and review the DDA arrangement annually, working closely with the employer. If the financial position improved significantly the intention would be to end the DDA, crystallise the debt and move over to spreading exit payments.
38. All costs of the arrangement to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.
39. All cases will be taken to the Local Pension Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chairman in consultation with Officers if an urgent decision is required between Committee meetings.
40. The Fund's approach to this change is included on page 19 in the Fund's proposed Funding Strategy Statement – see Appendix A.

### **Local Pensions Committee**

41. The three proposed changes were considered by Local Pensions Committee at its meeting on 22 January 2021 and Committee approved consultation on the draft Funding Strategy Statement in relation to changes on employer risks and exits.
42. A four weeks consultation has started with the Fund's employers.

### **Recommendation**

43. It is recommended that Board;
  - a. Notes the draft Funding Strategy Statement, in relation to changes on employer risks and exits, for consultation with the Fund's Employers.
  - b. Notes that a further report will be submitted to the Board presenting the outcome of the consultation and final version of the Fund's Funding Strategy Statement

### **Equality and Human Rights Implications**

None specific

**Appendix**

The Fund's proposed Funding Strategy Statement

**Officer to Contact**

Ian Howe  
Pensions Manager  
Telephone: (0116) 305 6945  
Email: Ian.Howe@leics.gov.uk

Declan Keegan  
Assistant Director of Strategic Finance and Property  
Telephone: (0116) 305 6199  
Email: Declan.Keegan@leics.gov.uk

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# Leicestershire County Council Pension Fund

Funding Strategy Statement

January 2021

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# 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**. This FSS supersedes the FSS that had been in place from **September 2020**.

## 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, Pensions Manager in the first instance at e-mail address [ian.howe@leics.gov.uk](mailto: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 than 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 \(k\)](#) 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 <a href="#">Appendix E</a> )			Ongoing participation basis, but may move to "gilts basis" - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary Contribution rate	(see <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No				
Maximum time horizon – <a href="#">Note (c)</a>	17 years	15 years	17 years	17 years	Future working lifetime	17 years
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 – <a href="#">Note (e)</a>	75%	80%	80%	80%	80%	80%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years				None, unless increases are particularly large
Review of rates – Note (g)	Review of rates will be carried out in line with the Regulations and as set out in <a href="#">Note (g)</a>					Review of rates will be carried out in line with the Regulations and as set out in <a href="#">Note (g)</a>  Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	<a href="#">Note (h)</a>	<a href="#">Note (i)</a>		<a href="#">Notes (i) &amp; (j)</a>
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 <a href="#">Note (k)</a> .			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 <a href="#">Note (k)</a> .		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 \(j\)](#).

**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.
<b>Tax raising body (excl. Town &amp; Parish Councils)</b>	+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 or contract end date whichever is sooner.

**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.

Where an employer is a transferee admission body, the Secondary rate has been set to spread the funding surplus / deficit over the future working lifetime of active members or contract end date whichever is sooner.

**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 may 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)** (Employer Risk)

The administering authority considers employer risk, when setting employer contribution rates.

Employers that have low employer contribution rates without additional security in place (e.g.a bond), the administering authority may decide to increase the rates to reduce the risk, or ringfence any potential surplus in lieu of a bond.

**Note (g)** (Regular Reviews)

Under [Regulation 64A](#), the Fund may amend contribution rates between valuations where there has been “significant change” to the liabilities or covenant of an employer. The Fund would only consider such requests from an employer, in writing, in the following exceptional circumstance:-

- the employer is in genuine financial difficulty and this option increases the risk of the employer being unable to pay their regular contributions. The employer will need to provide evidence to support their request within six months of the change;

The Fund would only consider this request if this was the least risk option to other Fund employers, and if the original outsourcing employer (if applicable) agrees, and acts as guarantor. The Fund would also assess the potential to put additional security in place and seek actuarial advice in all cases;

The Fund would not consider requests if it is within 12 months of the Fund’s next formal valuation. However if the employer can prove their financial difficulty is imminent, the Fund would consider allowing the review;

The Fund proposes a legal document would be prepared by the Fund and must be signed by all relevant parties prior to allowing a change in contribution rate. The legal document would include how future assessments of the employer’s contribution rate would be carried out;

If there is no guarantor, the Fund would seek a clause in the legal document to allow the Fund to have some form of security over the employer’s assets;

All cases will be taken to Pensions Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chair in consultation with Officers if an urgent decision is required between Committee meetings.

**Note (h)** (New Academy conversions)

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

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

- iv. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT. The transferring academy will pay the certified contribution rate of the MAT they are joining. If two MATs 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 (i)** (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 \(j\)](#) 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 (j)** (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 \(k\)](#).

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. Where there is a surplus the Administering Authority will determine, at its discretion, the amount of exit credit (if any) to be paid in accordance with the Regulations (see note (k) below).

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 pooling arrangement with the letting employer. The certified employer contribution rate of the contractor will normally be set equal to the rate of the letting authority. The rate paid by the contractor in the future will change in line with the contribution rate of the letting authority. 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 (k)** (Admission Bodies Exiting the Fund)

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.
- 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; 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; or.
- **On termination of a Deferred Debt Agreement.**

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. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified. However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

**In this exceptional case, the Fund's policy is:-**

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances;
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support their request;
- The Fund would take into account the amount of any security offered and seek actuarial and legal advice in all cases;
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing;
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately;
- All cases will be taken to Pensions Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chair in consultation with Officers if an urgent decision is required between Committee meetings.

### Deferred Debt Agreement

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may use its discretion to set up a Deferred Debt Agreement as described in [Regulation 64 \(7A\)](#).

If the Fund decides to set up a Deferred Debt Agreement then:-

- The Fund will require a legal document, signed by all relevant parties, detailing the terms of the Deferred Debt Agreement .
- The exiting employer will be required to offer the Fund some sort of security e.g. a bond over the term of the Deferred Debt Agreement in the event the employer becomes insolvent during the term of the agreement;
- If the financial position of the employer improves significantly, the Fund reserves the right to end the agreed Deferred Debt Agreement and put in place an agreement to repay the outstanding cessation amount over an agreed repayment period. Further details of the Fund's policy on spreading deficit payments are set out above.
- All Deferred Debt Agreement cases will be taken to Pensions Committee for consideration and each case will be considered on its individual merit. Decisions may be made by the Chair in consultation with Officers if an urgent decision is required between Committee meetings.

In circumstances where there is a surplus, the Administering Authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the Admission Body.

The Administering Authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all Admission Bodies ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The Administering Authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors;

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified;
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions;
- c) any representations to the Administering Authority made by the exiting employer, guarantor or Scheme Employer or by someone who owns, funds or controls the exiting employer; or in some cases, the Secretary of State; and
- d) any other relevant factors

### Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

Please refer to **Appendix G** for the Fund's policy on exit credits.

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 produce a deficit value 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 an appropriate loading to the ceasing employer's past service 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 which the Fund will recharge to the employer.

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 upon joining the Fund. 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.

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.



### 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 pass-through agreement is in place) 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 where the Administering Authority has not specifically 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.

Where an employer does not take out ill-health insurance, they will be offered the opportunity to make payment for any funding strain cost associated with ill-health retirements that occur annually inbetween formal valuations thereby more closely managing their future rates, but for higher risk employers or breaches of the “ill health allowance” the Fund may require payment. Employers may choose to pay in additional contributions in respect of these potential funding strains to minimise any detrimental effect on their future funding position (or otherwise, e.g. for budgeting or accounting purposes).

### 3.8 External ill health insurance

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

- the employer’s contribution to the Fund each year is reduced by the amount of that year’s insurance premium, so that employer’s total outlay (pension contribution plus insurance premium) 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.

New Fund employers are urged to take out the external ill health insurance offered.

### 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 \(k\)](#)) 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, bi-annually. 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 is 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 is 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 an 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) A draft version of the FSS was presented to the Local Pension Committee on the 8 November 2019 for initial comment;
- b) The draft version of the FSS was issued to all participating employers in November 2019 for comment;
- c) 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.
- d) Following the approval of the FSS by Local Pension Committee, it was published on the 28 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 an FSS and an 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-serving employees.</p>

Risk	Summary of Control Mechanisms
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 <a href="#">3.9</a>).</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 <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) 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 <a href="#">Section 5</a> ).	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>

<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional 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 <a href="#">Notes (i) and (k) to 3.3</a>).</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 <a href="#">Note (f) to 3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a) to 3.3</a>).</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.

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 about 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 about 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 accrual 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 monthly. 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?

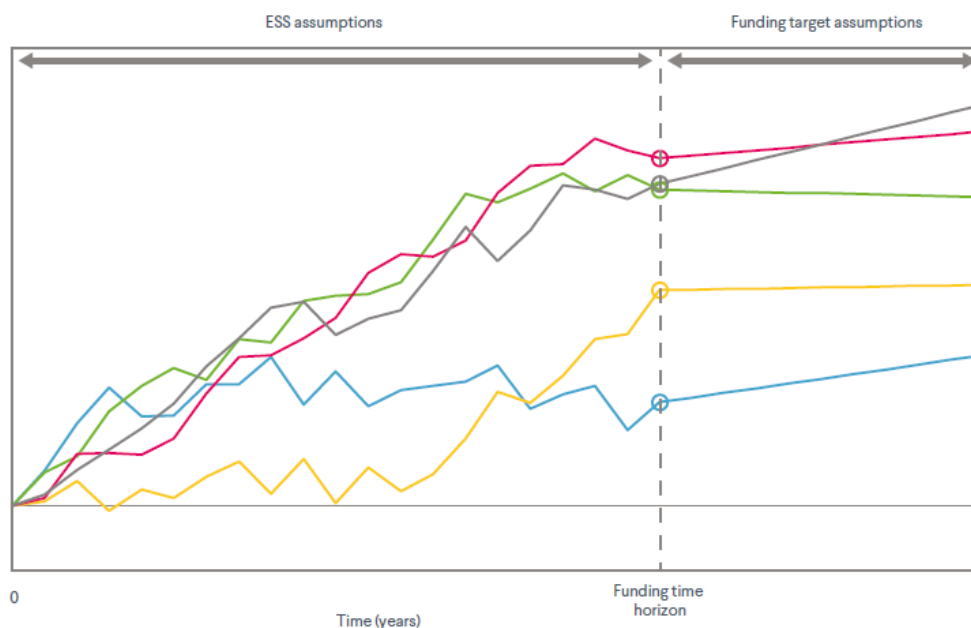
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”), and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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%
	<b>Volatility (Disp) (1 yr)</b>	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.

<b>Funding basis</b>	<b>Ongoing participation basis</b>	<b>Contractor exit basis</b>	<b>Low risk exit basis</b>
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants*
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	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

\*the Administering Authority may fund these bodies on the ongoing participation basis subject to agreement by the Fund where suitable risk control measures are established (e.g. a guarantor or bond indemnity is in place).

#### **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

<b>Funding basis</b>	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 <b>level of future investment returns</b> , 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.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are <b>members</b> . There will be an Admission Agreement setting out the employer's obligations. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary contribution rate</b> at each <b>valuation</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	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.

<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	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.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . 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.
<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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
<b>Valuation</b>	A risk management exercise to review the <b>Primary and Secondary contribution rates</b> , and other statutory information for a Fund, and usually individual employers too.

## Appendix G- Exit Credit Policy

The below sets out the general guidelines that the Leicestershire County Council Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable, if any, to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis.

### **Admitted bodies:**

- a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph c) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ beyond the initial expiry date and on the same terms that applied on joining the Fund.
- b) No exit credit will be payable to any admission body who participates in the Fund via the mandated pass through approach as set out in this Funding Strategy Statement. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the “Letting employer retains pre-contract risks” route is subject to its risk sharing arrangement, as per paragraph c) below.
- c) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Administering Authority) of the admission body ceasing participation in the Fund.
- d) In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.
- e) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its



participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

- f) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- g) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- h) The decision of the Fund is final in interpreting how any arrangement described under c), e), f) and g) applies to the value of an exit credit payment.

#### **Scheduled bodies and resolution bodies**

- a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- e) If a scheduled body or resolution body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

#### **General**

- a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- b) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of

contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

- c) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
  
- d) The final decision will be made by the Pension Manager, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
  
- e) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.
  
- f) Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the administering authority and the exiting employer may agree. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.
  
- g) The guidelines above at point e) in the 'Admitted Bodies' section, and at points a) and b) in the 'Scheduled bodies and resolution bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Section 3 of this document. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined in Section 3.3). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.



**LOCAL PENSION BOARD - 8 FEBRUARY 2021**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND – BUSINESS PLAN AND BUDGET 2021/22**

**Purpose of the Report**

1. The purpose of this report is to inform the Board of the Pension Section's Business Plan and Pension Fund's proposed budget for 2021/22.

**Background**

2. In November 2019 The Good Governance Project in the Local Government Pension Scheme (LGPS) Phase two report was published. This report was from the working groups to the Scheme Advisory Board.
3. The report includes several proposals on how to improve governance in the LGPS. The favoured option from the engagement activity was greater ring-fencing of the LGPS within existing structures, greater separation of pension fund management from the host authority, including **budgets**, resourcing and pay policies. The Pension Board may also be included in the **business planning process**.
4. The Pension Section's business plan and Pension Fund budget for 2020/21 was approved by Pensions Committee, but in previous years had been agreed with the Director of Corporate Resources, as the senior administering authority office responsible for the Fund.
5. To comply with the governance proposal both the 2021/22 Business Plan and Budget will be submitted to the Committee for approval on 26 February 2021 to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

**Business Plan**

6. The Pension Section's Business Plan details the main changes that impact on the Pension Fund in 2021/22. The most significant are implementing a review of the Pension Section processes following a new structure within the Pension Section from January 2021, managing and reducing employer risk, and the implementation of the McCloud remedy.

7. The key points are detailed in points 1, 3 and 5. The business plan is attached as Appendix A.

### **Pension Fund Budget**

8. Is it important to note the Pension Fund budget is independent of Leicestershire County Council's budget and its finances are managed separately. The Director of Corporate Resources has reviewed the proposed Pension Fund budget independently taking into account the full need of the service. In the Hymans Good Governance Phase 2 report two of the proposals state;
  - Each administering authority must ensure their Committee is included in the business planning process. Both Committee and the LGPS senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.
9. Given this, Officers also wish to share this with the Local Pension Board.
10. Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
11. The spend controls currently in place for the County Council do not apply to the Fund, although officers are mindful of the need to manage costs to minimise the financial burden on scheme employers.
12. The current budget is a one year budget but the projected estimated amounts have been included for 2022/23 and 2023/24. The 2021/22 budget compared to 2020/21 is summarised below and is sufficient to meet the Fund's statutory requirements.

Budget Heading	2020/21	2021/22	2022/23	2023/24
	£0	£0	£0	£0
Investment Management Expenses (split into three areas)				
o Management	24,000	25,400	26,700	29,100
o Transaction	8,920	9,810	10,740	11,720
o Performance	5,000	5,490	6,020	6,570
<b>Sub Total</b>	<b>37,920</b>	<b>40,700</b>	<b>43,460</b>	<b>47,390</b>
LGPS Central costs (Governance, operator running costs, product)	993	1004	1007	1052
Staffing	1,300	1,400	1,470	1,540
IT costs	500	500	510	520
Actuarial costs	150	150	400	150
Support Services	400	400	410	420
<b>Total</b>	<b>41,263</b>	<b>44,154</b>	<b>47,257</b>	<b>51,072</b>
<b>% of assets under management</b>	<b>0.91%</b>	<b>0.89%</b>	<b>0.87%</b>	<b>0.86%</b>

13. The fund holds no reserves and has no capital expenditure planned.
14. The total budget being requested for approval in 21/22 is £44.2 million. A breakdown of the expenses is set out below.

#### Investment Management Expenses

15. Investment Management Expenses have been split into three sections, management fees, transaction costs and performance fees. These have been compiled using historical data of expenses by category received from the Fund's investment managers using a third party. There will be deviations from these numbers given the historical nature of the analysis and changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling.
16. The 2021/22 investment management expenses are an estimate and will be largely subject to investment market returns given many fees are charged on assets under management. The Fund has assumed a prudent long-term investment return for the purpose of this budget estimate based on the most recent estimate of Fund returns from the investment consultant.
17. The breakdown on investment fees is shown below for current year 20/21 and 21/22:
- i. Management fees £24.0 million rising to £25.4 million in 21/22 – Are paid to investment managers based on a percentage of the assets under management. The figure includes £0.2 million in the current year rising to £0.6 million in 21/22

payable to LGPS Central for the sub funds the Fund is invested in and advisory services. This is the largest part of the total cost but as previously mentioned is highly dependent on investment returns.

- a. Pooling may reduce management fees where the Fund is moving from a similar strategy with an external manager. For example, the Fund moved from an emerging market debt manager to a Central fund which reduced management fees by c50bps pa on a c£100m investment. There are one off costs for transitions to be considered but in this particular case the costs are paid for within a year by the estimated savings in management fee. The Fund is also interested in a number of future central investment products that could potentially reduce costs further.
  - b. It is worth noting that in some cases the Fund will be moving Fund investments in order to meet its agreed asset investment allocation which takes into account expected returns. In the last year the Fund transitioned funds into a Central product that had other investment benefits as outlined by the due diligence undertaken but had marginally higher management fee.
- ii. Transaction costs £8.9 million rising to £9.8 million in 21/22 – Contain costs relating to trading within the fund whilst attempting to achieve the funds mandate. The increase is relation to this cost being linked to assets under management, a similar proportion of the forecasted 20/21 transaction costs is carried into future years.
  - iii. Performance fees £5.0 million rising to £5.5 million in 21/22 - some investment managers have performance fees built into the agreed mandates which are paid once a performance hurdle is achieved. This estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. The Fund has assumed a similar proportion of performance fees to assets under management.

#### LGPS Central costs oversight, governance and product development

18. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have not yet been approved. The Shareholder meeting is scheduled for February 10<sup>th</sup> 2021. This request for budget approval is based on provisional estimates that could change.
19. The Fund's expected share of costs for 21/22 has been estimated at £1.0 million. The governance costs are split equally between the eight local authorities. Operator running costs are split based on assets under management and product development costs are allocated based on products that our Fund has expressed an interest in being developed. As time progresses and more assets are managed by Central the level of product development costs will decrease.

Staffing

20. The Pensions Administration staffing budget covers staffing related costs for 33 full time equivalent staff. This includes initial extra resource to work on McCloud.
21. McCloud remedy remain unknown and once greater certainty is confirmed the Pensions Manager will review staffing requirements in this area.
22. Within the percentage rate that employers pay there is an allowance of 0.3% for administration expenses. This was detailed in all the employer schedules provided as part of the Fund's valuation.

IT Costs

23. Following a full tender process, the Pension Section invested in a new pensions administration system in 2018/19 including pensioner payroll, IConnect for employers to submit data monthly, the main core system, workflow and image, and member self-service.
24. The cost of the system was detailed in the tender and annual costs will remain targeted at the current £500,000 each year, increased for inflation.

Actuarial Charges

25. Actuarial charges are budgeted as £150,000 each year but increases to £400,000 in 2022/23 which is Fund valuation year.
26. Officers have started a tender of actuarial services and this should be completed in 2021/22.. Costs have formed part of the tender evaluation.

Support Services

27. Support Services are made up of strategic financial and operational finance charges from East Midlands Shared Services, e.g. for providing the pensioner payroll service. The charge also includes the Fund's legal costs.
28. The improvement project may suggest differing options for the provision of support services.

Budget Summary

29. Over 90% of the budget is spent on investment manager related expenses. Given that most investment manager expenses are based on a percentage of assets under management any increase in asset values, for example an increase in stock market/equity returns, will result in higher management fees paid in total.
30. Investment management costs can therefore be volatile and are likely to be higher than budgeted if investment performance exceeds the assumptions. Therefore, the costs detailed in the report could significantly change.

**Recommendation**

31. It is recommended that the Board notes Business Plan and proposed Pension Fund budget for 2021/22.

**Equality and Human Rights Implications**

None

**Appendix**

The Pension Section's Business Plan 2021/22

**Officers to Contact**

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199 Email: [Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668 Email: [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)

Mr I Howe, Pensions Manager

Tel: 0116 305 6945 Email: [lan.howe@leics.gov.uk](mailto:lan.howe@leics.gov.uk)



**Pensions Administration  
Business Plan  
2021-2022**

**Level One – Changes that impact on the Pension Fund or Leicestershire County Council - (resourced from Pension Fund)**

	<b>Priority (Not business as usual)</b>	<b>Key Actions</b>	<b>Performance measures / KPI</b>	<b>Impact</b>	<b>Support required from another service</b>	<b>Customer</b>	<b>Timescale/ Due Date</b>
1	<p>Implement a review of the Pension Section processes following the implementation of the new structure, concentrating in the following areas;</p> <p>Payments and taxation</p> <p>Early leavers</p> <p>Member self-service</p> <p>Postage and printing</p> <p>Scanning and indexing</p>	<ul style="list-style-type: none"> <li>Review all processes looking for efficiency, streamlining and digitising more on-line</li> <li>Highlight potential for fraud or errors within processes</li> <li>Develop a Pension Section training manual covering all processes</li> </ul>	<ul style="list-style-type: none"> <li>Develop new KPIs to measure improvement</li> <li>Review potential CIPFA KPI benchmarking requirements</li> </ul>	<ul style="list-style-type: none"> <li>Improve efficiency</li> <li>Assist with home working</li> <li>Reduces risks of manual error and reconciliation issues</li> <li>Expand system use</li> <li>Drive greater use of member self-service</li> <li>Automate processes using new technology</li> </ul>	<ul style="list-style-type: none"> <li>EMSS (payroll)</li> <li>EMSS (systems)</li> <li>Investments</li> <li>Heywood (system provider)</li> <li>HR colleagues for the structure review</li> <li>Fund employers</li> </ul>	<ul style="list-style-type: none"> <li>Pension Sections 98,000 scheme members</li> </ul>	<ul style="list-style-type: none"> <li>Project work – phased development and improvement</li> <li>31 Dec 2021</li> </ul>
2	<p>Continue the implementation of a phased roll out of IConnect with all the Funds employers</p>	<ul style="list-style-type: none"> <li>Phased roll out to all Funds employers</li> <li>Continue to work with employers and their third party payrolls on the specification</li> </ul>	<ul style="list-style-type: none"> <li>Report progress to the Local Pension Board on a quarterly basis</li> <li>Funds admin and comms strategy makes monthly posting a scheme requirement under TPR governance</li> </ul>	<ul style="list-style-type: none"> <li>Reduces year-end queries</li> <li>Assists employers</li> <li>MSS more accurate and timely</li> <li>Validation in built to negate wrong data at source</li> </ul>	<ul style="list-style-type: none"> <li>All employers' payrolls and their external payroll providers</li> <li>Heywood (system provider)</li> </ul>	<ul style="list-style-type: none"> <li>Remaining 77 fund employers with active members, 115 already completed. (192 employers in total)</li> </ul>	<ul style="list-style-type: none"> <li>All remaining employers by 31/3/22</li> </ul>

			arrangements	<ul style="list-style-type: none"> <li>• Meets TPR improvement plan requirements</li> <li>• Improves overall efficiency</li> </ul>			
3	<p>Manage and reduce employer risk incorporating the Regulation changes from September 2020, considering increased financial risk (for some employers) due to Covid.</p> <p>Also develop a new employer tracking system for monitoring employer changes and risks</p>	<ul style="list-style-type: none"> <li>• Continue to review bonds and guarantors</li> <li>• Continue to guide new TUPE</li> <li>• Continue to guide new TUPE outsourcings to pass-through pooling</li> <li>• Manage resource accordingly to deal with the new areas of responsibility</li> <li>• Work with the remaining “big 7 CABs” and higher risk Education bodies on a reduced risk strategy</li> <li>• Develop the Funding Strategy Statement following consultation with employers</li> </ul>	<ul style="list-style-type: none"> <li>• Negating the need for full bonds where possible and reducing current full bonds where possible.</li> <li>• Manage cases more easily with a specific system for monitoring cases</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce fund related employer risk</li> <li>• Reduce bond values</li> <li>• Reduce outsourcing pension costs and risk</li> <li>• Reduce the risk of default by new employers at TUPE</li> </ul>	<ul style="list-style-type: none"> <li>• Hymans (actuary)</li> <li>• Legal services (internal)</li> <li>• Eversheds (external legal)</li> <li>• Potentially a third-party system provider for employer risk tracking (e.g. South Yorkshire Pension Fund)</li> </ul>	<ul style="list-style-type: none"> <li>• Fund employers</li> <li>• Outsourcing and new employers</li> </ul>	<ul style="list-style-type: none"> <li>• On-going area of work 31/3/22</li> </ul>

4	SAB – Good Governance Project (phase two)	<ul style="list-style-type: none"> <li>• Implement the areas of recommendation in the phase two documents (Nov 2019)</li> <li>• Continue to work with Chris and Declan on Leics position</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to watch the national position</li> <li>• Guided by Hymans</li> </ul>	<ul style="list-style-type: none"> <li>• Improve the governance of the Fund</li> <li>• Reduce risk</li> </ul>	<ul style="list-style-type: none"> <li>• Hymans</li> <li>• Legal (potentially)</li> <li>• Other Funds (potentially)</li> <li>• Pensions Board, Committee and Democratic Services</li> <li>• CIPFA</li> <li>• SAB</li> </ul>	<ul style="list-style-type: none"> <li>• Scheme members</li> </ul>	<ul style="list-style-type: none"> <li>• No deadline set by SAB (on-going)</li> </ul>
5	Implement the McCloud remedy and cost cap implications	<ul style="list-style-type: none"> <li>• Continue to collect missing hour changes from employers from 1 April 2014</li> <li>• Load the missing hours into the pension system</li> <li>• Recalculate pension benefits for members since April 2014</li> <li>• Potentially offer aggregations to those members who previously decided against transferring</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a KPI for employers submitting the data to the Fund</li> <li>• Revise benefits and adjust payments where necessary</li> <li>• Develop a KPI for amending the benefits for scheme members</li> </ul>	<ul style="list-style-type: none"> <li>• Resource in the Pension Section (a temporary team of 3 has been set up to initiate the work)</li> <li>• Monitor the impact on the other teams in the Pension Section</li> <li>• Increased work and complexity for the Fund’s employers (reporting and extracting the data)</li> </ul>	<ul style="list-style-type: none"> <li>• Pension colleagues (internal)</li> <li>• Payroll colleagues (EMSS)</li> <li>• Heywood (system changes)</li> <li>• LGA</li> <li>• Legal Services (potential for legal appeals)</li> </ul>	<ul style="list-style-type: none"> <li>• All scheme members and their dependants</li> </ul>	<ul style="list-style-type: none"> <li>• After remedy is known (currently unclear)</li> </ul>

**Level Two – Changes that impact on Corporate Resources**

6	Implement new postage, printing and scanning solutions	<ul style="list-style-type: none"> <li>Investigate alternative solutions</li> </ul>	<ul style="list-style-type: none"> <li>Develop a KPI for turn-round times for postage and scanning</li> <li>Reduce postage using greater member self-service online solutions</li> </ul>	<ul style="list-style-type: none"> <li>Improve efficiency</li> <li>Reduce the need for office working</li> <li>Reduce costs</li> <li>Reduce risk of failure if Pensions had to fully work from home (Covid)</li> </ul>	<ul style="list-style-type: none"> <li>Internal IT</li> <li>Pension colleagues</li> <li>Potentially a third-party provider</li> <li>Procurement/Legal Services (if a third-party provider is used)</li> </ul>	<ul style="list-style-type: none"> <li>Scheme members</li> </ul>	<ul style="list-style-type: none"> <li>April 2021</li> </ul>
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**Level Three – Pension Section (continuous improvement) - (Resourced from the Pension Fund) – All Business as Usual and continually monitored**

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	Priority (Business as usual)	Key Actions	Performance measures / KPI	Impact	Support required from another service	EHRIA required Y/N	Officer	Timescale/ Due Date
7	Maintain the Local Government KPIs at or above target, for all areas of Local Government pension administration.	<ul style="list-style-type: none"> <li>Key focus on making payments to scheme members within the current KPI and customer satisfaction</li> <li>Work closely</li> </ul>	<ul style="list-style-type: none"> <li>Report the 3-business process and 7 customer perspective KPIs to the Local Pension Board each quarter</li> </ul>	<ul style="list-style-type: none"> <li>Maintain and improve customer service</li> <li>Highlights any falls in service so these can be addressed quickly</li> <li>Increased officer morale – positive feedback is very welcome</li> </ul>	<ul style="list-style-type: none"> <li>All fund employers</li> </ul>	N	Ian Howe	On-going  Quarterly reports to the Local Pension Board

		<p>with Pension Team Managers</p> <ul style="list-style-type: none"> <li>• Monitor changes in legislation</li> <li>• Monitor workloads</li> <li>• Monitor CIPFA benchmarking KPIs</li> </ul>						
8	Implement ongoing customer service improvements	<ul style="list-style-type: none"> <li>• Team Managers to explore ongoing customer service improvement opportunities</li> <li>• Implementation of the online retirement process</li> <li>• Implementation of the customer help desk</li> <li>• Expansion of Member self-service and system modellers where possible</li> </ul>	<ul style="list-style-type: none"> <li>• Implement new KPI's and review measuring techniques</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure the highest level of service available</li> <li>• Continually look to enhance and improve the customer experience</li> </ul>	N	N	Ian Howe	On-going
9	Achieve all the statutory deadlines – ABS by 31/8 and pension taxation	<ul style="list-style-type: none"> <li>• Work closely with Fund employers</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory statutory deadlines</li> </ul>	<ul style="list-style-type: none"> <li>• Failure is a reportable “material breach” of pension rules</li> <li>• Reportable to The</li> </ul>	<ul style="list-style-type: none"> <li>• All fund employers and their</li> </ul>	N	Ian Howe	31 August 6 October

	statements by 6/10			Pensions Regulator <ul style="list-style-type: none"> <li>• Inform the Local Pension Board</li> <li>• Reputational damage</li> </ul>	payroll providers <ul style="list-style-type: none"> <li>• EMSS</li> </ul>			
10	Improve staff sickness levels within the Pension Section from the current level of 6.4	<ul style="list-style-type: none"> <li>• Team Managers to continue to manage sickness</li> </ul>	<ul style="list-style-type: none"> <li>• Pension Section target of 5.0</li> </ul>	<ul style="list-style-type: none"> <li>• Increased sickness – negative impact on morale, KPIs and targets, increased risk of failure with customer service standards and increases time for work completion</li> </ul>	N	N	Ian Howe	On-going
11	Continue to improve home working solutions	<ul style="list-style-type: none"> <li>• Develop a process for permanent home working</li> <li>• Reduce post moving more to MSS</li> <li>• Improve workflow processes</li> <li>• Maintain close contact with all colleagues working from home</li> </ul>	<ul style="list-style-type: none"> <li>• Increase MSS take up</li> <li>• Target specific employers on MSS take up</li> <li>• Team Managers to liaise at least one a week with each member of their team</li> </ul>	<ul style="list-style-type: none"> <li>• Improved staff morale</li> <li>• Improved efficiency</li> <li>• Reduced risk</li> </ul>	N	N	Ian Howe	On-going

## Overview

- Provides a statutory service administering the Local Government Pension Scheme to over 180 employers in the Leicestershire Fund with over 98,000 scheme members.
- Rated very highly by customers for providing a great customer experience
- Reports to the Leicestershire Local Pension Board and Pensions Committee, made up of both employee and employer representatives

## Key drivers

- Continue to achieve or better, key performance indicators in business processes and customer satisfaction
- To complete a review of processes, concentrating on improved efficiency, reduced risk and improved home working
- Develop processes and communications for the McCloud remedy, once the final remedy is known
- Complete monthly postings of contributions from employers to negate the significant peak of year-end work, spreading this throughout the year by March 2022
- Continue to build on the home working solution to make this more efficient and maintaining staff morale
- Maintain staff wellbeing throughout the pandemic and beyond

Ian Howe January 2021





**LOCAL PENSION BOARD – 8 FEBRUARY 2021**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**RISK MANAGEMENT AND INTERNAL CONTROLS**

**Purpose of the Report**

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 has been attached as an appendix to this report. There are no new risks, and two of the previous risks have been removed as set out below:-
  - Fire administration - This risk has been removed as the transfer of the Firefighter Pension Scheme administration to West Yorkshire was completed on the 31 December 2020 following a successful transfer of fire pensions data during the testing process.
  - Annual Benefit Statements and Pension Saving Statements – Although Covid impacted on some employers providing late year-end information to the Pension Section, the statutory deadlines for the production of annual benefit statements and pension saving statements were achieved in 2020.

5. To meet Fund Governance best practise, the risk register has been shared with Internal Audit. Internal Audit have considered the register and are satisfied with the current position.

### **Recommendation**

6. It is recommended that the Board notes the revised risk register of the Pension Fund.

### **Equality and Human Rights Implications**

None

### **Appendix**

Appendix - Risk Register

### **Officers to Contact**

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199 Email: [Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668 Email: [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)

Mr I Howe, Pensions Manager

Tel: 0116 305 6945 Email: [Ian.Howe@leics.gov.uk](mailto:Ian.Howe@leics.gov.uk)

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 hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong.	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.  Internal Audit run an annual Pensions Increase result test and provide an annual report of findings	3	3	9	Treat	Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	2	1	3	Ian Howe
2	Pens	If the pensions fund fails 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 31/3/2022)	3	3	9	Treat	Implement IConnect with the remaining 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
3	Pens	If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a	Pensions database now hosted outside of LCC.  Employer data submitted through online portal.  Member data accessible through	Diminished public trust in ability of Council to provide services.  Loss of confidential information compromising service user safety.  Damage to LCC	Ian Howe	Regular LCC Penetration testing and enhanced IT health checks in place.  LCC have achieved PSN compliance.  New firewall in	5	2	10	Treat	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	5	1	5	Stuart Wells

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		<b>breach of the statutory obligations.</b>	member self-service portal (MSS).  Data held on third party reporting tool (DART).  Greater awareness of information rights by service users.	reputation.  Financial penalties.		place providing two layers of security protection in line with PSN best practice.					take place.  Liaise with Audit to establish if any further processes can be put in place in line with best practice.  Report the findings to the Board.				
4	Pens	<b>The resolution of the McCloud case could increase administration significantly resulting in difficulties providing the ongoing pensions administration service</b>  <b>The liabilities of the Fund are expected to increase for all employers</b>	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	<b>Treat once details are confirmed</b>	Employer bulletin to employers making them aware of the current situation  Await proposed resolution from the employment tribunal  Assisting the LGA on the employer McCloud data template (missing hours April 2014 to date)  No statutory deadline to be set for completion of the work  Team set up in the Pension Section to deal with McCloud casework	2	3	6	Ian Howe
5	Pens	<b>If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions</b>	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected.  Incorrect actuarial calculations made by the Fund.	Ian Howe	Pension Section provides employers with the annual bandings each year.  Pension Section provides employers	4	2	8	<b>Treat</b>	Pension Officers check sample cases at year-end  Pension Officers to report major failings to internal audit before	4	1	4	Ian Howe

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		than expected		Possibly higher employer contributions set than necessary		with contributions rates (full and 50/50)  Internal audit check both areas annually and report their findings to the Pensions Manager					the annual audit process  Major failings to be reported to the Pensions Board				
6	Pens	If immediate payments are not applied correctly, scheme members one off payments could be wrong	Human error when setting up immediate payments  System failures  Unable to meet weekly deadlines	Reputation  Complaints/appeals  Time resource used to resolve issues  Members one off payments, not paid, paid late, paid incorrectly	Ian Howe	Benefit Team Tracker process  Benefits checked and authorised by different Officers  Additional Assistant Team Manager resource provided	5	2	10	Treat	A more automated process now set up  Internal audit to review the process  Officers re-engineering the retirement process  Monitor the structure of the Pension Section to resource the area sufficiently  Officers requested further system security checks on immediate payments (bank account checks)	5	1	5	Ian Howe
7	Pens	If all the transfers out checks are not completely fully there could be future bad advice challenges brought against the Fund's pension administration	Increasing demand for transfers out from members  Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits	Reputation  Future bad advice claims brought against the Fund  IDRP appeals (possible compensation payments)	Ian Howe	TPR checks  Follow LGA guidance  Queries escalated to Team Manager then Pensions Manager	3	3	9	Treat	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity  Further escalation process to external Legal Colleagues  Considering signing up	3	2	6	Ian Howe

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
			Increased complexity on how the receiving schemes are set up								to The Pension Regulator's national pledge "To Combat Pension Scams"				
8	Invs	<b>Employer and employee contributions are not paid accurately and on time</b>	Error on the part of the scheme employer  CV19 may reduce some employer's income so they are unable to make payment	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. Communication with large commercial employers with a view to early view of funding issues.	2	4	8	Treat	Late payers will be reminded of their legal responsibilities.	2	3	6	Declan Keegan
9	Invs	<b>Assets held by the Fund are ultimately insufficient to pay benefits due to individual members</b>	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Chris Tambini	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk	5	2	10	Treat	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates. The 2019 valuation will assess the contribution rates with a view to calculating monetary contributions alongside employer percentages of salaries where appropriate. Regular review of market conditions and dialogue with the schemes biggest	4	2	8	Bhulesh Kachra

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
											employers with respect to the direction of future rates.				
10	Pens/ Invs	<b>Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer</b>	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates.  Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.	Ian Howe/  Declan Keegan	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	5	2	10	Treat	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates.  Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks  Investigate arrangements to de-risk funding arrangements for individual employers.  Ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy	4	2	8	Ian Howe/  Declan Keegan
11	Invs	<b>Market investment returns are consistently poor, and this causes</b>	Poor market returns most probably caused by poor economic conditions and/ or	Significant financial impact on employing bodies due to the need for	Chris Tambini	Ensuring that strategic asset allocation is considered at least	5	2	10	Treat	Making sure that the investment strategy is sufficiently flexible to take account of	4	2	8	Bhulesh Kachra

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		significant upward pressure onto employer contribution rates	shocks e.g. CV19.	large increases in employer contribution rates		annually, and that the medium-term outlook for different asset classes is included as part of the consideration					opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns.				
12	Invs	Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations	Poor performance of individual managers including LGPS Central, 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.  Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where appropriate  Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will provide significant influence in the event of issues arising.  Appraisal of each LGPS Central investment product before a commitment to transition is made	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 reason for original inclusion.  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



Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
13	Invs	<b>Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers</b>	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 than would otherwise have been necessary.	Chris Tambini	<p>Ensuring that all factors that may impact onto investment returns are taken into account when setting the asset allocation.</p> <p>Only appointing investment managers that integrate responsible investment (RI) into their processes.</p> <p>Utilisation of dedicated RI team at LGPS Central and preparation of a RI plan for the fund.</p>	3	4	12	Treat	<p>Responsible investment aims to incorporate environmental (including Climate change), social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.</p> <p>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.</p> <p>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.</p>	2	2	4	Bhulesh Kachra
14	Invs	<b>Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns</b>	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	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

Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; <i>Tolerate</i> <i>Treat</i> <i>Terminate</i> <i>Transfer</i>	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
						investment decisions									
15	Invs	<b>The transition of investment assets to LGPS Central is not successful</b>	<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

## Risk Impact Measurement Criteria

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

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
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
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**

		<u>Impact</u>				
5 Very High/Critical	5	10	15	20	25	
4 Major	4	8	12	16	20	
3 Moderate	3	6	9	12	15	
2 Minor	2	4	6	8	10	
1 Negligible	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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## **LOCAL PENSION BOARD 8 FEBRUARY 2021**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PENSION FUND CONTINUOUS IMPROVEMENTS REPORT – FEBRUARY 2021**

#### **Purpose of the Report**

1. To provide a regular update to the Board regarding progress in respect of areas of identified improvement within the Pensions Section.

#### **Background**

2. The Pensions Section has faced multiple changes over the last few years. Investment has been made in new systems including i-Connect, purchased to improve the process of loading employer data and Member Self Service (MSS) a new online portal that offers greater facilities for scheme members. Pensioner payroll and a payments system (Immediate Payments), have been incorporated into the i-Connect system, resulting in a streamlining of those processes. In addition, the McCloud/Sargeant judgement and changes in respect of the exit cap have been introduced, resulting in extra work and additional complexity.
3. With further change envisaged in the future, including an increased focus on governance and data quality, plus the prospect of longer term home working, it is vital that the Section reviews how it operates to ensure high standards of service can be maintained at a reasonable cost to the Pension Fund.
4. A Pensions Projects Manager was appointed at the beginning of 2020 with a view to reviewing the Section and recommending improvements. A key element of the recommendations is the implementation of a new structure which will allow for a more targeted approach in key areas, e.g. continued improvements, governance, payment of retirement and death benefits, taxation and customer care. This will allow staff to specialise within their teams resulting in an improved service for scheme members and employers.
5. The proposed structure was approved and came into effect from 1<sup>st</sup> January 2021 splitting the section into five new teams:
  - Payments and Taxation; responsible for the calculation and implementation of pension benefits and also issues relating to pensions taxation issues, i.e. members who breach Annual Allowance or Lifetime Allowance thresholds.
  - Early Leavers; responsible for pensions administration, including refunds, preserved benefits and the aggregation of pension records. Will also deal with

'customer service' through the monitoring of emails and all general telephone calls using new contact centre technology.

- Employers and i-Connect; responsible for the roll out and maintenance of i-Connect. Also, administration of Employer based work, including work around new employers, risk and liaising with the scheme actuaries.
- Continued Improvements and Systems; to assess and improve existing processes, maximising the use of technology, whilst also exploring other areas including tenders, new legislation, governance and data quality.
- McCloud Team; this is a temporary team that has been put in place to deal with the administration relating the McCloud/Sargeant ruling and once the project is completed, it is expected that the Team Manager will then retire, whilst the two team members will move into the Early Leavers team.

### **Key Areas**

6. The following key areas have been identified for future developments.

#### **Member Self Service (MSS)**

- i. To examine ways of encouraging scheme members to sign up for the Pensions online portal, MSS, for example by hosting presentations through Microsoft Teams for employers and increasing awareness through circulars, articles etc.
- ii. To develop use of MSS functionality to improve and digitise existing processes, e.g. Retirements, Death Grant Nomination form, resulting in a quicker exchange of information between Pensions and scheme members, whilst also reducing the amount of office postage. Work is nearing completion with regards to utilising existing functionality for the issuing of retirement options and some pension estimates have already been issued through the portal.
- iii. Identifying improvements to usability of the general site on an on-going basis, whilst ensuring that the site is accessibility compliant.

#### **Implementation of New Postage, Printing and Scanning Solutions**

- iv. To consider alternative approaches to these areas that improve efficiency and reduce the risk of failure in the event that Pensions were to fully work from home as a result of Covid or any future issues. This area would be also be linked to the drive to increase the use of MSS (by reducing the use of paper) covered above.

#### **Employer Risk**

- v. To consider options for improving the monitoring of employer changes and financial risk. This could be through increased internal monitoring and/or accessing external databases.



Governance and Office Procedures

- vi. To examine areas of governance, including the implementation of the recommendations made by the Scheme Advisory Board's Good Governance Project, ensuring the section is compliant in all areas.
- vii. To record office policies already in place whilst identifying and implementing improvements and efficiencies, highlighting any potential for fraud and ensuring measures are in place to prevent this;
- viii. Development and maintenance of a centralised office training manual covering all aspects of section administration.
- ix. Run regular data quality reports and take appropriate action with the aim of improving the annual Pensions Regulator data score and forms part of the Pensions Section data improvement plan.
- x. Consideration of the impact of working at home and how existing processes already in place can be developed as part of a longer term strategy.

Employer Training

- xi. To arrange and provide training for employers as and when required, particularly around new areas, e.g. exit cap, McCloud project.

Projects

- xii. Overseeing the McCloud project;
- xiii. Completion of the Actuarial Tender;
- xiv. Working with Team Managers to highlight and identify any issues within the new structure and developing solutions.

7. This is not an exhaustive list and other items may be added during the year. It is intended that future reports will cover progress made in these areas, highlighting any particular subjects deemed of possible interest to the Board.

8. A grid summarising the initial position is available for reference in the appendix.

**Recommendation**

9. It is recommended that the Board notes all areas of the report.

**Equality and Human Rights Implications**

None specific

**Appendix**

Appendix A – Summary of initial position

**Officers to Contact**

Ian Howe

Pensions Manager

Telephone: (0116) 305 6945

Email: [Ian.Howe@leics.gov.uk](mailto:Ian.Howe@leics.gov.uk)

Declan Keegan

Assistant Director of Strategic Finance and Property

Telephone: (0116) 305 6199

Email: [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)

Area	Affected Team	Aim	Target Completion Date
Member Self Service	Continued Improvements	To increase number of scheme member registrations, by raising awareness through online demos, articles and targeted comms with various categories of members, e.g. pensioners, deferreds, actives.	On-going
Member Self Service	Continued Improvements	To use MSS facilities to allow letters to be uploaded to members to reduce postage, and allow for them to return their forms in the same way.	On-going
Printing/Scanning Solutions	Continued Improvements / Early Leavers	To explore alternative approaches to printing and scanning with a view to enabling all pensions staff to work from home.	Summer 2021
Employer Risk	Continued Improvements / Employers and iConnect	To purchase or develop an employer tracker system, to assist officers in monitoring employer related data including contribution payments and bonds, resulting in a reduction of risk. Consider whether overlaps between Pensions contribution monitoring work and work carried out by Investments can be addressed.	Summer 2021
Governance	Continued Improvements / Payments and Taxation / Employers and iConnect	Development and maintenance of office training manual covering all aspects of section administration. Also to review existing office processes including altair workflows, to streamline and improve whilst assessing potential for fraud and manual errors, reducing these wherever possible	Initial document in place 31 March 2021
Governance	Continued Improvements / Payments and Taxation / Employers and iConnect	Examine areas of governance, including the implementation of the recommendations made by SAB's 'Good Governance' Project, ensuring that the section is compliant in all areas	On-going
Employer Training	Continued Improvements	To increase comms with employers, mainly through use of MS Teams	On-going
McCloud Project Phase 1	McCloud / Continued Improvements	Employers to provide member data to Pensions, i.e. hours changes and service breaks covering the period April 2014 to March 2022, which we will need to upload to our records prior to implementation of the 'remedy' once confirmed, to assess whether pension benefits will need to be adjusted in light of the McCloud/Sargeant ruling.	30/06/22
McCloud Project Phase 2	McCloud / Continued Improvements	Implementation of the 'remedy', including the recalculation and amendment of benefits, plus communication to scheme members of the changes. Remedy may also include other aspects, e.g. possible option for members to aggregate any separate records, yet to be confirmed.	31/12/22
Actuarial Tender	Continued Improvements	Tender has been issued for the appointment of a Scheme Actuary	01/05/21

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