Leicestershire County Council
PENSION FUND

Meeting: **Local Pension Board**

Date/Time: **Monday, 24 May 2021 at 10.00 am**

Location: **Microsoft Teams.**

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

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

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 8 February 2021.		(Pages 3 - 6)
2.	Question Time.		
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
4.	Declarations of interest in respect of items on the agenda.		
5.	Additional Voluntary Contributions.	Director of Corporate Resources	(Pages 7 - 48)
6.	Pension Fund Administration Report January to March 2021 - Quarter Four.	Director of Corporate Resources	(Pages 49 - 72)
7.	Employer Risks and Exits	Director of Corporate Resources	(Pages 73 - 132)
8.	Good Governance Phase 3 - Progress Report.	Director of Corporate Resources	(Pages 135 - 182)

9.	Pensions and Cyber Risk.	Director of Corporate Resources	(Pages 183 - 200)
10.	Continued Improvements and Systems.	Director of Corporate Resources	(Pages 201 - 208)
11.	Internal Audit Arrangements (Including Internal Audit Work Conducted During 2020-21 and the Internal Audit Plan 2021-2022) and the Pension Fund Risk Register.	Director of Corporate Resources	(Pages 209 - 230)
12.	Pension Fund Conflict of Interest Policy.	Director of Corporate Resources	(Pages 231 - 252)
13.	Any other items which the Chairman has decided to take as urgent.		
14.	Date of Next Meeting. 23 August 2021		

TO:

Employer representatives

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

Employee representatives

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

Mr. M. Saroya – Substitute Employee representative

Minutes of a meeting of the Local Pension Board held at County Hall, Glenfield on Monday, 8 February 2021.

PRESENT

Ms. C. Fairchild	Cllr. E. Pantling
Ms. R. Gilbert	Mr. R. J. Shepherd CC
Mrs. R. Page CC	Mr. M. Saroya

73. Election of Chairman.

RESOLVED:

That Mrs. R. Page CC be appointed Chairman of the Local Pension Board.

Mrs. R. Page CC in the Chair

74. Election of Vice-Chairman.

RESOLVED:

That Mrs. C. Fairchild be appointed Vice Chairman on the Local Pension Board.

75. Minutes.

The minutes of the meeting held on 26 October 2021 were taken as read, confirmed and signed.

76. Question Time.

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

77. Urgent Items.

There were no items for consideration.

78. 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.

No declarations were made.

79. Pension Fund Administration Report October to December 2020 - Quarter Three.

The Board received a report from the Director of Corporate resources on relevant issues in the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators. A copy of the report marked 'Agenda Item7' is filed with these minutes.

Arising from the discussion the following points were made:

i) Consideration had been given to the implications for the Fund arising from the Exit Cap regulations and the Local Pension Committee had agreed a policy for how to deal with impacted cases. The Board noted that whilst the Exit Cap regulations came into force the LGPS regulation had not been amended in line with it. Members noted the difficult position created by the regulatory conflict and that there were legal challenges at a national level with unions.

ii) The Pension Manager informed the Board of a breach regarding delays at the Fund's in-house Additional Voluntary Contributions (AVC) provider, the Prudential. Following a move from an IT system in November 2020 the Prudential had delays with investing contributions paid from the Fund in a timely manner so pension pots were incorrect. Members agreed it would be useful to question the Prudential at a future meeting to understand what mitigation was in place to avoid such issues in possible as it was concerning that the problems could impact on members ability to receive funding in a timely manner.

iii) The Board were pleased to note significant process on resolution of two long running TUPE cases regarding Beacon Academy. However. concern remained with Hinckley Academy to Caterlink, the Board noted that since the report pass through established. Only two members of staff transferred no requirement for Bond as young in age. Members are aware of delay.

iv) The transfer of the administration of the FireSection to West Yorkshire had been successful.

v) Targets for the section varied month by month due to the cyclical demand on the Pensions Section depending on the time of year, such as year end.

vi) The Pensions Section looked to move away from paper wherever possible but could not force members to become digitalised.

RESOLVED:

a) That the report be noted.
b) That the Prudential be invited to the following meeting.

80. Employer Risks and Exits - Funding Strategy Statement Consultation.

The Board considered a report of the Director of Corporate Resources regarding proposals to amend the Fund's Funding Strategy Statement following regulation changes to employer risks and exits. A copy of the report, marked 'Agenda Item 8', is filed with these minutes:-

Members supported the proposed changes and noted that the Fund was not minded to allow reviews of employer contributions outside of the usual Fund valuation process. In exceptional cases where a Fund employer was experiencing genuine financial difficulty however, the Fund would look to review the contribution rate if it were to increase the chance of repayment. The risk would first be considered alongside risk to other Fund employers and would be assessed to consider putting additional security in place. The Fund would seek actuarial advice on all cases.

RESOLVED:

That the Board support the proposed changes to the Fund's Funding Strategy Statement.

81. Business Plan and Budget 2021/22.

The Committee considered a report of the Director of Corporate Resources on the Pension Section's Business Plan and the Pension Fund's proposed budget for 2021/22. A copy of the report, marked 'Agenda Item 9' is filed with these minutes.

Arising from the discussion the following points were noted:-

i. Leicestershire Pension Fund finances were managed separately to that of Leicestershire County Council as Administering Authority. The separation ensured there was no undue influence from the County Council in relation to its own budgetary pressures. This approach was in line with best practice set out by the Scheme Advisory Board.

ii. Investment management fees made up 90% of the Fund's budget. Where investments performed well, management fees would increase as they related to the value of assets under managers control.

iii. The Pension Section had undertaken a full tender process for a a new pensions administration system in 2018/19. Annual costs increased in line with inflation.

iv. Pooling with LGPS Central allowed the Fund and partners to reduce the duplication of costs and resources and maximise the benefits of scale. Through pooling the Fund continued to remove more expensive managers once products were launched.

RESOLVED:

That the Board support the Pension Section's Business Plan and the Pension Fund Budget 2021/22.

82. 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 10'.

Arising from the discussion the following points were noted:-

i. The risk related to administration of the Firefighter scheme had been removed following the transfer of data and management to the West Yorkshire Pensions Service.

ii. Every three years a formal valuation of the Fund would be carried out, the purpose of which was to value the assets and liabilities of each individual employer and the Fund as a whole. Contribution rate assumptions were dependent on various factors, such as expected levels of staff promotion. It was recognised that assumptions were unlikely to be fully correct, thus contingency would be put in place to ensure the Fund is on track.

iii. Risk 10 ‘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’ amber rating was being mitigated by ensuring that the financial position of each employer was understood as far as possible. Officers continued dialogue with its employers to ensure they were aware of the correct balance between risk and fair treatment. Where necessary officers would consider arrangements to de-risk funding arrangements for individual employers. Ultimately, risks and decisions relating to them were the employers decision.

iv. Risk 11 ‘Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates’ amber rating reflected the continued volatility within the markets. Members were assured that the Fund was 90% funded which was considered a strong position.

v. The Pension Section had online questionnaires in place to receive feedback from scheme members on processes in place so improvements could be made.

RESOLVED:

That the risk register be noted.

83. Pension Fund Continuous Improvements Report - February 2021.

The Board considered a reported of the Director of Corporate Recourses providing an update on progress in respect of areas identified improvement within the Pensions Section. A copy of the report, marked ‘Agenda Item 11’, is filed with these minutes.

RESOLVED:

That the report be noted.

84. Date of Next Meeting.

RESOLVED:

That the next meeting be held on 24 May 2021 at 10am.

CHAIRMAN

08 February 2021

Agenda Item 5

LOCAL PENSION BOARD - 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. To inform the Board about the Pension Fund's in-house Additional Voluntary Contribution (AVC) provider the Prudential, AVC options and service delivery.

Background

2. Leicestershire Local Government Pension Scheme is required to provide an Additional Voluntary Contribution (AVC) scheme where active contributors may elect to pay extra pension contributions, known as AVCs, to provide additional benefits at retirement or in the event of death in service.

3. AVC contributions are deducted directly from scheme members pay before tax is worked out, so if a member does pay tax then they receive tax relief automatically. Such additional contributions do not form part of the Pension Fund and do not require an employer's contribution.

3. The Prudential Assurance Company Limited (the Prudential) has been the Leicestershire Pension Fund's in-house AVC provider since 31 March 1996. The Pensions Manager has an annual review with the Prudential covering their service delivery and last reviewed their investment options in 2019. This partnership has worked well until recently. Since the start of 2021 there have a been several service delivery failings that are impacting on the Fund's AVC payers.

The Prudential AVC Scheme

4. Of the scheme members within Leicestershire Pension Fund there are currently 988 active contributors paying Prudential AVCs and 1,522 pensioners who have additional LGPS benefits as a result of previous Prudential AVCs.

5. There are 19 different fund choices which are set out in more detail below. 17 are Non-Lifestyle Fund choices that vary from higher risk to minimal risk investments. There are 2 Lifestyle Fund choices. In the Lifestyle Funds,

investments are moved into lower risk funds automatically, as a scheme member approaches their chosen retirement age. This is known as “de-risking”. AVCs are invested by the Prudential into the scheme member’s fund choices. When a scheme member retires the AVC is used to increase their pension benefits.

6. Administration charges are applied to member’s individual AVC fund pots and vary slightly between the 19 funds, depending on whether the fund is actively or passively manged. Actively managed funds tend to have a higher charge because they require extra investment management resources to generate enhanced investment returns. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year.

7. The Pensions Manager has reviewed the current fund choices and remains confident they continue to provide a sufficient package of options for Leicestershire Local Government Pension Scheme members with satisfactory annual charges.

AVC Fund Options

8. An AVC plan is an investment thus the value could increase or decrease dependent on performance, meaning that unlike the Local Government Pension Scheme, returns from AVC contributions are not guaranteed. It is the scheme member’s individual choice which investment fund or funds they choose and each AVC fund is given a risk rating by Prudential based on their expectation of future volatility (the chance-of short-term fluctuations up and down in the value of a fund). Risk ratings do not take into account other types of investment risk such as the effects of inflation. Further detail on Prudential’s risk ratings and the objectives of each fund can be found in Appendix A.

9. Scheme members using the information attached within the Fund Guide can make the choice on what is the most appropriate fund for their needs and circumstances. Leicestershire Pension Fund’s default fund for scheme members that do not make a choice is the ‘With Profits Fund’.

10. Neither the Prudential nor the Pension Section can offer advice to members on which fund to invest in, if scheme members are unsure they should speak with an external financial adviser.

Details of the 17 Non-Lifestyle Fund choices are listed in the table below

	Fund Name (Non-lifestyle)	**Investment Risk**	**Asset Class**	**Active or Passive**	**Charge each year %**
1	UK Equity Fund	Higher	Equities	Active	0.65
2	UK Equity Passive Fund	Higher	Equities	Passive	0.55
3	Prudential Positive Impact Fund	Higher/Medium	Equities	Active	0.65

4	Prudential Long-Term Gilt Passive Fund	Medium	Equities	Passive	0.55
5	International Equity Fund	Medium/Higher	Equities	Active	0.65
6	Global Equity Fund	Medium/Higher	Equities	Active	0.65
7	Fixed Interest Fund	Medium	Bond	Active	0.65
8	Index Linked Fund	Medium	Bond	Active	0.65
9	Discretionary Fund	Medium	Multi Asset	Active	0.65
10	With Profits Fund	Lower/Medium	Multi Asset	Active	See note*
11	Prudential Cash Fund	Minimal	Deposits	Active	0.55
12	Deposit Fund *(closed to new members)*	Minimal	N/A	Active	N/A**
13	Prudential Dynamic Growth I	Lower/Medium	Multi-asset	Active/Passive	0.62
14	Prudential Dynamic Growth II	Lower/Medium	Multi-asset	Active/Passive	0.62
15	Prudential Dynamic Growth III	Lower/Medium	Multi-asset	Active/Passive	0.62
16	Prudential Dynamic Growth IV	Medium	Multi-asset	Active/Passive	0.62
17	Prudential Dynamic Growth V	Medium	Multi-asset	Active/Passive	0.62

* The With-Profits Fund management charge depends on the performance of the Fund, in particular the investment return and expenses. Based on a current assumption that future investment returns from the With-Profits Fund will be 5% per year, the charge is expected to be 0.8% per annum.

** The Deposit Fund closed to new members on the 31 May 2017. Interest rate is set on the first of each month in line with the Bank of England base rate. There are no explicit charges.

Detail of the two Lifestyle Fund choices are listed in the table below

	Fund Name (Lifestyle)	**Investment Risk**	**Asset Class**	**Active or Passive**	**Charge each year %**

18	Prudential Dynamic Growth IV **(targeting cash)***	Lower /Medium (moving to Low)	Multi asset moving to cash	Active	**
19	Prudential Dynamic Growth IV **(targeting retirement options)***	Lower/ Medium (moving to Low)	Multi asset moving more slowly to cash	Active	**

* Made up of three funds

- Prudential Dynamic Growth II
- Prudential Dynamic Growth IV
- Prudential Cash Fund

** 0.62 for the Prudential Dynamic Growth Funds and 0.55 for the Cash Fund

Service Delivery

11. Since the start of 2021 the Prudential has experienced a number of service related problems that have affected the speed of benefit payments to scheme members. However, the Prudential remains committed to resolving these problems.

12. The Prudential migrated its corporate pensions administration to a new system in November 2020. Although the migration itself was a success, there have been some operational challenges in terms of new processes being adopted. This has been compounded by Covid lockdowns. This has impacted upon AVC payers, the Pension Section and the Prudential.

13. The issues are summarised as follows;

- Delays on disinvesting members AVC pots, thereby delaying the Pension Section calculating and paying member retirement benefits.
- Delays in tracking payments from Fund employers and investing members contributions in a timely manner.
- Delays in providing scheme members and the Fund with communications on individual cases.

14. The Pensions Manager has been liaising with the Prudential on an improvement plan. Several of the longest outstanding cases have been resolved but the delays continue, and the Prudential recognise their failings and are determined to resolve these fully, and as quickly as possible. The Prudential have a full recovery plan in place which benefits from executive level oversight. The Prudential has informed The Pensions Regulator of the challenges that are being managed.

15. The Prudential have confirmed that any late investments of members contributions will be backdated to the date the contributions were received, so no member will be negatively financially impacted by their delays.

16. The Pensions Manager has received several complaints from scheme members about the Prudential's service. The Pensions Manager has written to all active members with AVCs detailing the situation. The letter is included as Appendix B.

17. The Pensions Manager agreed with the Chair of the Local Pension Board to report the Fund's delays in processing retirement benefits for members with AVCs to The Pensions Regulator as a material breach. This was done prior to the Board meeting on the 24 May 2021.

18. Given the long-standing positive relationship the Fund has had with the Prudential for many years, and the recent downturn in service received, the Prudential are invited to attend the Pension Board's meeting to speak to the Board directly.

19. The Prudential are keen to take this opportunity and to provide a presentation to the Board, including their service delivery improvement plan.

Recommendation

20. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix A – Prudential Fund Guide - http://www.pru.co.uk/pdf/LAVS379702.pdf

Appendix B – Letter to active scheme members with AVCs

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

PRUDENTIAL

Fund Guide

Leicestershire County Council Pension Fund
Local Government AVC Scheme

Fund Guide

Leicestershire County Council Pension Fund
Local Government AVC Scheme

The pension fund that you build up to provide for your retirement will depend on factors including the amount of contributions put in and what funds they are invested in.

This booklet provides useful and important information to help you decide which funds you would like to invest in.

The initial areas to consider are:

- How do I understand investment risk?
- What type of investments do I favour?
- Fund charges and further costs
- Further costs

Followed by:

- What funds are available?
- How does Lifestyling work?
- Fund descriptions

Finally we provide:

- Other important information
- Further information
- A glossary of some investment terms

Prudential is committed to providing a broad range of funds. These funds have been selected for your scheme by your trustee or employer and should offer a varied choice for you. If you are unsure as to the suitability of a fund, you may wish to seek financial advice.

Your Key Features Document contains all the main features, benefits and risks of the Plan. It is important that you read this document before making a decision. As this is an investment-based product the value of your investment can go down as well as up and you may not get back the amount invested.

The information included in this guide is correct at the time of production, April 2020.

Where to find some more information

You can find details of how we manage our unit-linked funds at **www.pru.co.uk/ppfm/ul/**

You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds.

Principally, this Customer Guide will explain:

- the nature and extent of the decisions we take to manage the funds, and
- how we treat customers and shareholders fairly

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We will write to you if this affects you. We may also introduce new funds from time to time.

To get up-to-date information on the funds we make available, including changes to funds, please visit **www.pru.co.uk/funds/prudential-corporate-pension-factsheets/**

How do I understand investment risk?

Trying to understand and decide on the level of risk you are willing to take with your investment can be a difficult task. Understanding some of the risks that an investment could be exposed to can help you assess how much risk you are willing to take.

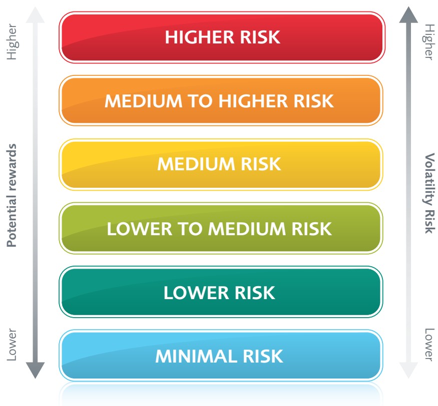
Growth from your investment can't be achieved without exposure to some risk. Being too cautious can also put your investment at risk, for example it may not grow enough to keep up with inflation (the rising cost of everyday goods and services), so getting the balance right is key to meeting your own objectives.

Some funds are more risky than others so how do you decide which fund or funds are most suitable for you? One rule of thumb is that the more risk you take, the greater the potential return over the long-term – but also the greater the potential loss.

To help you choose the right fund for you we have given each fund a risk rating

Important points to understand about Prudential's risk ratings.

- Our risk ratings are based on our expectation of future volatility (the chance of short-term fluctuations up and down in the value of a fund). They do not take into account other types of investment risks you may face such as the effects of inflation.
- Risk ratings are reviewed by Prudential and may change in the future.



Volatility Risk – the chance of short-term fluctuations up and down in the value of funds, as events in financial markets cause the value of investments to rise and fall. While this can happen at any time, we believe it is likely to be most important when you're planning changes to your funds or close to taking your benefits.

These risk ratings have been developed by Prudential. Our explanations of each of these risk categories can be found in the 'What funds are available?' section.

Other companies may use different descriptions and as such these risk rating categories should not be considered as generic to the fund management industry. We recommend that before making any fund choice you ensure you understand the risk rating and relate that to your personal circumstances before making a decision.

It is important to understand the risks involved. You need to consider the amount of risk you are taking against the potential performance of the fund. The value of investments can go down as well as up. You could get back less than you invest.

In addition to Volatility Risk, other risks you may face (shown alphabetically) include:

Conversion Risk – when you retire, there is a risk that the amount of income you can buy with your pension savings will fall.

Default Risk – the risk that a company or government may not honour payments due to an investor.

Exchange Rate Risk – changes in exchange rates may cause the sterling values of overseas investments to rise or fall.

Inflation Risk – the risk that the value of investments doesn't grow enough to keep up with inflation and so the buying power of your pension savings is eroded. We believe this risk is likely to be important to you most of the time.

Liquidity Risk – some assets can be more difficult to value and can take longer to buy or sell.

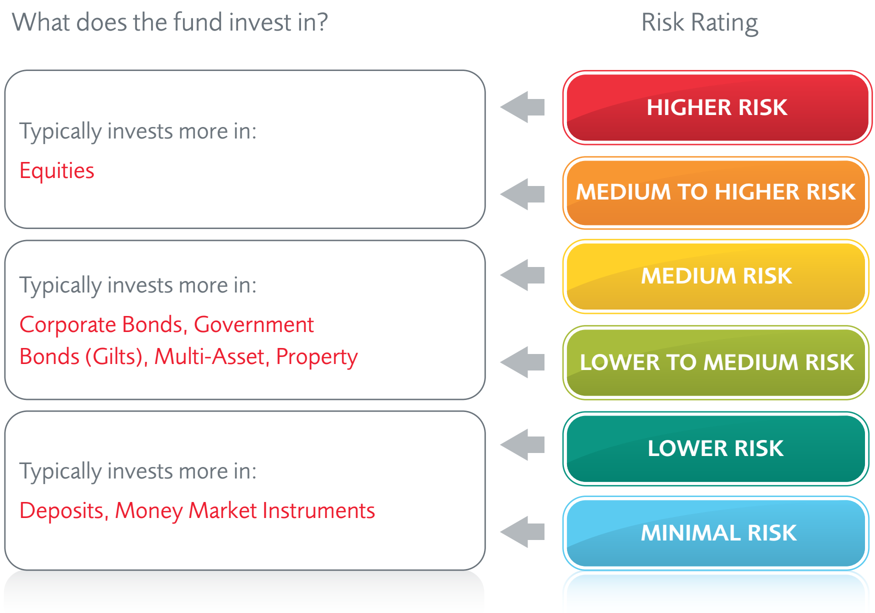
Manager Risk – the risk that an investment manager may fail to meet the objectives set for a fund.

You need to balance the importance of each of these risks to you. While inflation is likely to be important throughout, volatility and conversion risks may become even more important as you approach retirement.

There are other risks that might be applicable to you at different times as you save for and take your retirement benefits. For more information on these, please speak to a financial adviser.

What type of investments do I favour?

You can choose to spread your investment across assets to reflect your own attitude to risk.



What is diversification?

If you invest entirely in one type of asset or region of the world, then the value of all your pension savings will be subject to the changes in the performance of that type of asset or region. To help manage this risk, you could consider choosing funds that spread the risk by investing:

- in several assets, e.g. Equities, Bonds and Property, either through a number of funds or with a Multi-Asset fund
- by geography, e.g. different countries and regions

This approach, known as diversification, may help protect your investment from feeling the full effects from a fall in value of one asset area. However, there may be occasions when most types of investments fall in value. It should be noted too that diversification means your investment may not feel the full effects of a rise in value of any one asset.

Fund charges and further costs

When you invest your retirement savings in a fund there are charges and costs. Further information on what these are for the funds available to you, are shown later in this guide.

We take an Annual Management Charge (AMC) for looking after your investment, from each of the funds you invest in. AMCs may vary in the future and may be higher than they are now. We'll write to you if an AMC goes up for a fund you are invested in, unless the change in the AMC we quote is part of the expected function of that fund (for example the With-Profits fund – see your Key Features document for more information).

In addition to our AMC, there may be further costs incurred. Where these are applicable, they are paid for by the fund and will impact on the overall performance. We've included more information on further costs on the next page. As it's normal for further costs to vary over time, we won't contact you when they change.

This is the total of the Annual Management Charge and further costs.

The name of the fund these charges and costs are applicable to.

Fund Name	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
An Example Fund	***0.75***	***0.18***	***0.93***
What this means in money terms based on savings of £10,000.	*£75*	*£18*	*£93*

Further costs

In addition to our annual charges, there may be further costs incurred. Where these are applicable, they're paid for by the fund and will impact on the overall performance. Some examples of what these further costs might include are shown below. These aren't listed in order of importance, they won't necessarily apply to all funds, and this isn't an exhaustive list.

Name	What that means	Where appropriate, are they included in the further costs figures we show in this fund guide?
Miscellaneous fund administration fees and costs	There can be a number of different administration fees associated with funds. These can include, for example, audit fees, custody fees, infrastructure costs, registrar fees, regulatory fees, transaction related custody fees and trustee fees.	No, for unit-linked funds*, apart from transaction related custody fees. Yes, for the With-Profits fund (if an option for your scheme).
Performance fees	In some funds the fund managers are paid a fee depending on how they perform.	No, but if they're applicable they will impact on the performance of a fund.
Property expenses	For funds that invest in property, either directly (i.e. the fund owning physical property) or indirectly (i.e. owning units in a property fund or shares in a property company) there are costs incurred for managing these properties. These can include costs for development, maintenance, oversight and renovation of the properties held, collecting rents, and managing tenants, as well as running costs that cannot be passed onto tenants.	Yes.
Transaction costs	When a fund manager trades the investments in a fund (for example, makes a decision to sell one holding and buy another) there are associated costs, for example taxes.	No, but if they're applicable they will impact on the performance of a fund.

* Currently, for unit-linked funds, these are rebated back by Prudential to the fund, so they won't impact the fund performance, and aren't disclosed. We reserve the right to not rebate them in the future.

Further costs might be incurred by a Prudential fund or, where it's applicable, any fund our fund invests in (see the 'Objective' for information on where a fund might invest).

The further costs listed in this guide are indicative, based on the current levels of costs, and are correct as at April 2020.

What funds are available?

In this section you will find details of the funds you can invest in. Where available, you can choose a combination of up to a maximum of 10 funds from the funds listed.

The funds are separated by risk rating as explained in the earlier 'How do I understand investment risk?' section. We set these risk ratings for all our funds to help you choose the most appropriate funds for your needs and circumstances.

Further detail covering the objectives of the funds and where they invest can be found later in this booklet in the 'Fund descriptions' section.

Default Investment Option

If you do not actively choose a fund your payments will be invested in your plan's Default Investment Option. The Default Investment Option for your plan is the Prudential With-Profits Fund. It is the responsibility of your trustee or employer to select the Default Investment Option with guidance from their adviser. You can change your mind and switch out of the Default Investment Option.

This doesn't represent a recommendation on behalf of Prudential and you should consider and choose funds or lifestyle options to suit your needs.

Fund Name	Fund Charges and Further Costs		
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
Higher Risk – These are specialist equity funds that focus on set geographical regions or a particular type of share e.g. shares of smaller companies or those that conform to certain criteria.			
Prudential UK Equity Fund	0.65	0.01	0.66
Prudential UK Equity Passive Fund	0.55	0.01	0.56
Medium to Higher Risk – These funds offer a diverse geographical spread of equity investment or have multi-asset strategies with a specialist focus (e.g ethical). The equity funds within this category will have greater overseas exposure and underlying volatility than the 'medium risk' sector.			
Prudential Global Equity Fund	0.65	0.01	0.66
Prudential International Equity Fund	0.65	0.01	0.66
Prudential Positive Impact Fund	0.65	0.00	0.65

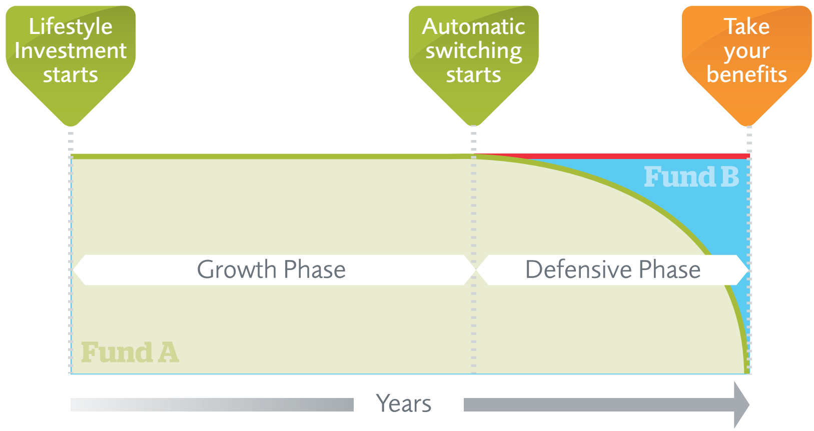
Fund Name	Fund Charges and Further Costs		
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
Medium Risk – These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts) are also in this category.			
Prudential Discretionary Fund	0.65	0.03	0.68
Prudential Dynamic Growth IV	0.62	0.01	0.63
Prudential Dynamic Growth V	0.62	0.01	0.63
Prudential Index-Linked Fund	0.65	0.01	0.66
Prudential Long-Term Gilt Passive Fund	0.55	0.01	0.56
Prudential UK Property Fund	0.65	0.53	1.18
Lower to Medium Risk – These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).			
Prudential Dynamic Growth I	0.62	0.01	0.63
Prudential Dynamic Growth II	0.62	0.01	0.63
Prudential Dynamic Growth III	0.62	0.01	0.63
Prudential Fixed Interest Fund	0.65	0.01	0.66
Prudential With-Profits Fund	†	0.18	†
Minimal Risk – These funds may invest in a combination of deposits, money market instruments and other types of interest bearing securities.			
Prudential Cash Fund	0.55	0.00	0.55

† For further information on the Prudential With-Profits Fund please see 'Other important information'.

How does Lifestyling work?

Lifestyling

Lifestyling aims to provide long term growth with automatic switching of your money into different funds as you get closer to taking your benefits. Lifestyling is an investment option that is basically made up of two phases. The first "growth" phase is where the aim is to grow the size of your pension savings, typically by investing in funds which aim to grow faster than inflation. In the second "defensive" phase your investments are switched automatically, into funds that could help reduce the risk of short-term falls in the value of the pension savings you've built up.



How/when are Lifestyle switches made?

The switches between funds, shown by funds A and B in the example above, are designed so that the investment in each fund within the lifestyle option is maintained at the fixed proportions set out in the 'Lifestyle option' section. The funds being used, their risk ratings and the point where your fund value will start automatic switching, will be dependent on the lifestyle option you choose. If you choose a lifestyle option, all your payments will be made into that option and you will not be able to select any other funds or lifestyle option. You can switch all your pension savings out of this option at any time.

The switches between the funds are automatically done and are normally free of charge. However, there may be a cost to you if the switch is from a fund where the, generally lower, selling price applies that day to a fund where the, generally higher, buying price applies on the day the switch is completed. Prudential reserves the right to change the terms of the lifestyle option.

What happens if I change my retirement plans?

If you change the date that you intend to take your benefits it's important that you let us know so that we can amend your lifestyle option accordingly.

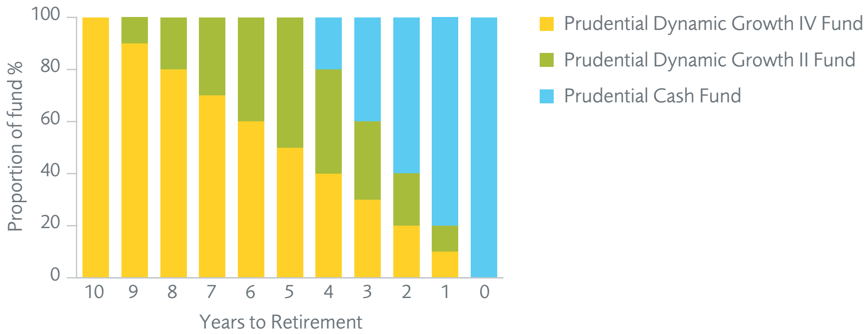
More information on Lifestyling

Details of the funds used for investment in your lifestyle option are detailed within the 'Fund description' section later in this guide.

For further details of the advantages and disadvantages of lifestyling please visit **www.pru.co.uk/lifestyling/**

Lifestyle option

Prudential Dynamic Growth IV Lifestyle targeting 100% cash



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

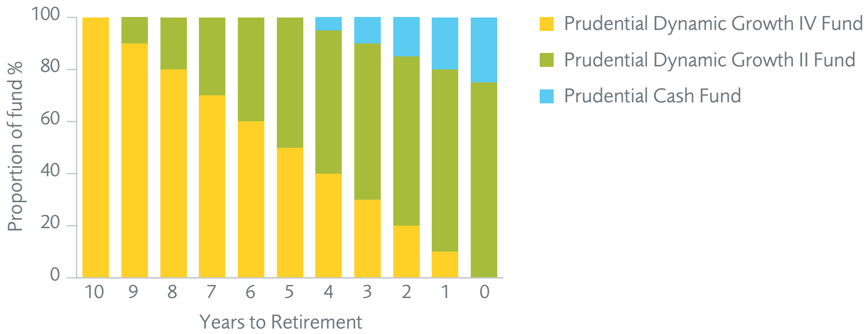
The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

Risk rating	Charges per year
Prudential Dynamic Growth IV Fund – **Medium** Prudential Dynamic Growth II Fund – **Lower to Medium** Prudential Cash Fund – **Minimal**	Charges will depend on which funds your money is invested in and when the charge is calculated.

The 'targeting 100% cash' lifestyle has been designed for those intending to take their pension as a single or series of cash lump sums. At retirement, you'll need to consider whether by taking cash you will have sufficient income to meet your needs.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Prudential Dynamic Growth IV Lifestyle targeting retirement options



Please note that the funds change automatically and monthly throughout the year to achieve the pre-set proportions.

The graph above shows you what funds are included in the lifestyle option, where you are initially invested and how the proportions invested in each fund move year on year to retirement. You will find more information on Lifestyling in the 'How does Lifestyling work?' section.

Risk rating	Charges per year
Prudential Dynamic Growth IV Fund – **Medium** Prudential Dynamic Growth II Fund – **Lower to Medium** Prudential Cash Fund – **Minimal**	Charges will depend on which funds your money is invested in and when the charge is calculated.

The 'targeting retirement options' lifestyle has been designed for those that want a lifestyle option, but are not sure how they might want to access their pension savings when they take their benefits.

Lifestyle option names may be descriptive in nature. Some, for example, are similar to Prudential Risk Rating names. However, it is important to note, that lifestyle options are not risk rated by Prudential.

Closed funds

The following list shows funds that are now closed to new members. Members who are already invested in these funds can continue to invest and make additional payments.

Fund Name	Fund Charges and Further Costs			Date Closed
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)	
Prudential Deposit Fund	N/A*	0.00	N/A	31/05/2017

* For further information on the Prudential Deposit Fund please see the 'Fund descriptions' section.

Fund descriptions

All of the available funds are Prudential funds managed on our behalf by the fund manager stated. These funds should not be confused with the same or similarly named fund offered independently by this fund manager.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Higher Risk		
Prudential UK Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP UK Equity Fund - the underlying fund. Underlying Fund Objective: The fund invests, via other M&G PP funds, in the shares of UK companies. The fund is actively managed against its benchmark, the FTSE All-Share Index. It is a "fund of funds" holding units in several more specialised UK equity funds giving access to a variety of methods for generating investment returns in differing market conditions. Performance Objective: To outperform the benchmark by 0.75%-1.0% a year (before charges) on a rolling three year basis.
Prudential UK Equity Passive Fund Prudential	Equities, Passive	Objective: The investment strategy of the fund is to purchase units in the M&G PP UK Equity Passive Fund - the underlying fund. Underlying Fund Objective: The fund invests in the shares of UK companies. The fund is passively managed against its benchmark, the FTSE All-Share Index. The fund tracks the index by holding all of the companies which make up the FTSE 100 Index, together with a representative sample of the remainder of the companies in the All-Share Index. Performance Objective: To match the performance of the benchmark as closely as possible.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium to Higher Risk		
Prudential Global Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Global Equity Fund - the underlying fund. Underlying Fund Objective: The fund provides an all-equity approach to investment, holding a 60% UK equity and 40% mix of overseas company shares. For the overseas shares the fund is actively managed against an internal composite benchmark asset allocation set by the M&G Treasury & Investment Office (T&IO). It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three year basis.
Prudential International Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP International Equity Fund - the underlying fund. Underlying Fund Objective: The fund invests, via other M&G PP funds, in the shares of overseas companies. It is actively managed against an internal composite benchmark asset allocation set by the M&G Treasury & Investment Office (T&IO). It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three year basis.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Positive Impact Fund Prudential	Equities, Active	The investment strategy of the fund is to purchase units in the M&G PP Positive Impact fund (the underlying fund). Underlying fund objective: The investment strategy of the fund is to purchase units in the M&G Positive Impact Fund, an M&G OEIC. That fund aims to provide a combination of capital growth and income, that is higher than the MSCI ACWI Index over any five-year period, net of the Ongoing Charge Figure. At least 80% of the fund is invested in the shares of companies from anywhere in the world (including emerging markets), across any sector and of any size. The fund usually holds shares in fewer than 40 companies. The fund invests over the long term in companies that make a positive social and/or environmental impact alongside a financial return. Sustainability and impact considerations are fundamental in the stock selection process. The fund embraces the United Nations Sustainable Development Goals framework and invests in a range of companies focused on areas including climate action, pollution reduction, education and working conditions. Derivatives may be used to manage risks, reduce costs and to manage the impact of changes in currency exchange rates on the fund's investments.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium Risk		
Prudential Discretionary Fund Prudential	Multi-Asset, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Discretionary Fund - the underlying fund. Underlying Fund Objective: The fund provides a multi-asset approach to investment, holding a mix of UK and overseas company shares, bonds, property, cash plus listed alternative assets through other M&G PP funds or direct holdings. It is actively managed against an internal benchmark asset allocation set by the M&G Treasury & Investment Office (T&IO). It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.15% - 1.40% a year (before charges) on a rolling three year basis.
Prudential Dynamic Growth IV Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 40% of its assets in equities but not more than 80%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth V Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 60% of its assets in equities but may invest up to 100%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Index-Linked Fund Prudential	Government Bond, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Index-Linked Fund - the underlying fund. Underlying Fund Objective: The fund invests mainly in UK Government index-linked gilts, typically with over five years to maturity. The fund is actively managed against its benchmark, the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index. The fund can also invest in corporate bonds, overseas government bonds and fixed interest gilts. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential Long-Term Gilt Passive Fund Prudential	Government Bond, Passive	Objective: The investment strategy of the fund is to purchase units in the M&G PP Long-Term Gilt Passive Fund - the underlying fund. Underlying Fund Objective: The fund invests in UK Government gilts with over 15 years to maturity. The fund is passively managed against its benchmark, the FTSE Actuaries UK Conventional Gilts Over 15 Years Index. Tracking this index is achieved by fully replicating the stocks in the index. Performance Objective: To match the performance of the benchmark as closely as possible.
Prudential UK Property Fund Prudential	Property, Active	Objective: The investment strategy of the fund is to buy units in the M&G PP UK Property Fund - the underlying fund. Underlying Fund Objective: The fund invests in the M&G UK Property Fund ("UKPF"), an open-ended Luxembourg FCP investing solely in UK property assets, including the retail, office, industrial and alternative sectors. The UKPF is actively managed against its IPD benchmark, seeking to deliver returns through a combination of rental income and capital growth. At times the fund may have significant levels of short term cash deposits in advance of purchasing units in the UKPF. This may lead to lower than expected returns. Performance Objective: To outperform the benchmark by 1.05% per year (gross of annual management charges) over rolling 3-year periods.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Lower to Medium Risk		
Prudential Dynamic Growth I Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest a maximum of 30% of its assets in equities. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth II Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 10% of its assets in equities but not more than 40%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth III Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 20% of its assets in equities but not more than 55%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Fixed Interest Fund Prudential	Government Bond, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Fixed Interest Fund - the underlying fund. Underlying Fund Objective: The fund invests mainly in UK government gilts. The fund is actively managed against its benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index. The fund can also invest in overseas government bonds and corporate bonds issued by UK and overseas companies and institutions. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential With-Profits Fund Prudential	Multi-Asset, Active	The fund offers the prospect of competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. Investment returns are passed to policyholders through bonuses. The fund is invested in a diversified portfolio of UK and overseas shares, bonds, property and cash. A significant proportion of the fund is invested in shares and property which can be expected to produce attractive long term returns, but the return on these assets can be volatile and so the fund is actively managed to optimise the returns while controlling risk.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Minimal Risk		
Prudential Cash Fund Prudential	Deposits, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Cash Fund - the underlying fund. Underlying Fund Objective: The fund invests in both secured (reverse repurchase agreements) and unsecured interest bearing deposits, as well as short-term UK Government bonds and Certificates of Deposit. It is actively managed against its benchmark, the London Interbank LIBID 7 Day Deposit rate. Performance Objective: To outperform the benchmark before charges on a rolling three year basis.
Prudential Deposit Fund Prudential	N/A, Active	The current practice, which we can review at any time, is to set and declare the interest rate on the first of each month, in line with the Bank of England base rate. Any interest is declared monthly and there are no explicit charges. The assets of this fund are part of the With-Profits Fund which is a multi-asset fund. The capital you hold in the Prudential Deposit Fund will not decrease.

Other important information

With-Profits

Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. Over time, if investment returns are higher, then the charges would be expected to be higher, and if investment returns are lower, the charges would be expected to be lower. An indication of the current estimated level of the annual charge can be found in your Key Features Document or, for existing investors, your Annual Benefits Statement.

There is a charge to pay for all the guarantees the With-Profits Fund supports. That charge isn't included in this guide but you'll find information on this, and further information on With-Profits, in your Key Features document. The annual charge, further costs, and charges to cover the cost of these guarantees, are already taken into account when we calculate the bonus rates for our With-Profits Fund. If you move money out of the With-Profits Fund a Market Value Reduction (MVR) may be applied, which would cause the value of your savings to fall. MVRs are meant to make sure all investors get a fair return based on the earnings of the With-Profits Fund over the period their payments have been invested and remaining investors don't suffer unfairly because others have sold their stake. For more information, please see our 'MVR – a clear explanation' document, reference PRUS6165 at **www.pru.co.uk/pdf/PRUS6165.pdf**

For With-Profits investments, the rate of future bonuses cannot be guaranteed. Final bonus may vary and is not guaranteed. For investments in the With-Profits Fund, the value of the Policy depends on how much profit the Fund makes and how we decide to distribute that profit. Policyholders usually receive their shares of any profits as bonuses but we may use other methods to distribute profits.

For further information on With-Profits please refer to your Key Features Document or visit **www.pru.co.uk/funds/ppfm/**

Switching between funds

- When switching between different unit-linked funds, the sale of existing units and the purchase of new units will not normally take place on the same date. There will be a lead-time involved in making unit prices available and where external companies are involved this lead-time may be longer than for funds managed by Prudential. The prices of units can go up or down during that time: this is a risk to you. The exact time lapse between sale and purchase will depend on the funds involved in the switch. No interest is due for the period between the sale and purchase of units.
- For any fund, there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and we will let you know if they apply to you. There may, for example, be circumstances outside our control which prevent us, from acting upon

an instruction to buy, sell or switch units. For example, where, due to restrictions imposed by an external fund manager, we are unable to sell units in an externally-managed fund. Equally we may need to delay acting upon an instruction where we believe that will protect remaining investors in the fund from suffering an unfair reduction in the value of their investment in the fund or some other form of unfair treatment.

- Other than in very exceptional circumstances we would not expect delays to be longer than six months for investments in property and land and one month in the case of units in other funds.
- While we will not delay buying, selling or switching units for longer than reasonably required, we cannot guarantee that we will never delay acting upon your instructions beyond the timescales set out above.
- If we do delay, we will use the unit prices that apply on the day we actually sell, buy or switch units after the delay has ended, unless, again, we believe that in the particular circumstances that would not be fair to investors in general.

▶ When switching an existing investment from a unit-linked fund to a lifestyle option, the total value of your fund will be switched automatically to that lifestyle option.

▶ If you choose a lifestyle option, all of your payments will be made into that option and you will not be able to select any other funds or lifestyle option. You can switch all of your savings out of this option at any time.

Changes to our funds

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We may also introduce new funds. To find out about changes to our range of funds, please go to **www.pru.co.uk/corporate-pension-fund-updates/**

Can I change my mind?

You can switch your money between funds at any time. We won't charge you for this though, as noted earlier, there is a risk to you as the prices of units can go up or down during the lead-time involved in making those prices available. If this changes in the future we will let you know. For further information please see the earlier 'Switching between funds' section.

Further information

How funds invest

Some of the Prudential funds listed in this guide may invest in 'underlying' funds or other investment vehicles. Have a look at a fund's objective and that will tell you where it invests – including if that's in an underlying fund or funds.

If the Prudential fund is investing in just one underlying fund then it's what's known as a 'mirror' fund, as the performance of the Prudential fund broadly aims to reflect the performance of the underlying fund it invests in. The performance of our Prudential fund, compared to what it's invested in won't be exactly the same. The differences between the underlying fund and our fund can be due to:

- additional charges,
- cash management (needed to help people to enter and leave our fund when they want),
- tax,
- timing of investments (this is known as a fund's dealing cycle, it varies between managers and can be several days).

Some background information on how our funds work

- Funds are legal arrangements which pool together the contributions of numerous individuals (such as members of schemes like you) to collectively buy assets like shares and bonds. These funds are then divided into units of equal value. In return for their contributions, each individual receives ownership of their share of the fund in the form of these units.
- Funds – known as 'unit-linked' funds – have a single price, based on the valuation of the assets held by the fund. Each unit will have this price.
- The unit-linked funds are "forward priced". This means that the unit price you receive is the next available price after you have invested money in or taken money out of a fund.
- When calculating the unit price of a fund it is important to consider how much money is either going into or being taken out of the fund.

  If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the purchase price (or "offer" price as it is sometimes known) will be relevant in determining the unit price of the fund.

  If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.

- Sales prices are generally lower than purchase prices so a switch from a purchase price to a sales price will result in a lower unit price. Conversely, a switch from a sales price to a purchase price will result in a higher unit price.

  In both cases the movement in unit price can be significant and will occur immediately.

  This is known as a "single swinging price". It is done to protect the interests of those customers who remain in the fund and means that the costs of buying and selling assets are borne by those customers who are trading in and out of the fund. The difference between the purchase and sales price reflects these costs which tend to be largest for funds investing in property, smaller companies and developing markets. The costs can include stockbroker commission and withholding taxes (such as stamp duty in the UK) and are outside Prudential's control.

  It also means that, whenever you switch funds, there may be an investment cost to you if you switch from a fund where the sales price applies that day to a fund where the purchase price applies on the day the switch is completed.

Find out more

- You can find more details of how we manage our unit-linked funds at **www.pru.co.uk/ppfm/ul/**

  You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds.

Compensation

The Prudential Assurance Company Limited (PACL) is covered by the Financial Services Compensation Scheme (FSCS). If we get into financial difficulties, you may be able to make a claim. The FSCS is an independent body set up by Government to provide compensation for people where their authorised financial services provider gets into financial difficulties and becomes unable, or unlikely to be able, to pay claims against it. This circumstance is referred to as being 'in default'.

Losses, which may result from poor investment performance, are not covered by the FSCS.

Where does FSCS protection apply?

There is full FSCS coverage if PACL is 'in default'.

- Your pension is protected up to 100% of the value of your claim.
- Any funds you choose to hold in your pension will be included in the value of your claim in the event that PACL is declared 'in default'.
- If you hold the Prudential With-Profits Fund or Deposit Fund (if an option for your scheme) in your pension, they are protected 100% in the event of the default of PACL.

All the other funds we offer, apart from those mentioned above, are unit-linked, and invest in other funds managed by non-PACL fund managers. FSCS cover does not apply if the non-PACL fund manager were to be 'in default'.

- There is no FSCS cover for unit-linked funds investing with non-PACL fund managers if that manager were to be 'in default'.
- See 'How funds invest' for further information on these types of fund (often called 'mirror' funds).

You can find out more information on the FSCS at **www.pru.co.uk/fscs**, or you can call us.

Information is also available from the Financial Services Compensation Scheme.

Visit their website: **www.fscs.org.uk**

Or write to: The Financial Services Compensation Scheme, PO Box 300, Mitcheldean GL17 1DY

Or call the FSCS: Telephone: 0800 678 1100

Where FSCS coverage does not apply, then other factors can come in

As explained in the 'Where does FSCS protection apply?' section, the FSCS doesn't cover every situation. For example unit-linked funds that invest in the funds of non-PACL fund managers (often called 'mirror' funds).

But, where FSCS protection does not apply, there are other factors that could help if the worst happened and a provider was 'in default'. For example, the use of custodians or depositories to provide protection for fund assets, where there is separate legal ownership of assets and legal entities that aren't liable for any losses of a fund manager. In so doing, the intention is that the underlying fund will not be liable for any losses the underlying fund management company incurs.

PACL would aim to recover any money invested in an underlying fund where the fund manager has been declared 'in default', but PACL would not be liable for any loss incurred from the default of the non-PACL fund manager.

A glossary of some investment terms

This glossary is not intended to be a definitive reference document and you should consider contacting a financial adviser for further assistance where necessary.

Alternative Assets – These are alternatives to more traditional assets such as Equities, Bonds and Property. These can range from hedge funds and venture capital to fine wines, rare stamps and other collectibles. Due to their nature some of these assets can be difficult to value and to trade.

Bonds – These are loans or IOUs issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds while those issued by governments are generally known as government bonds. Bonds issued by the UK Government are known as Gilts.

Bonds can provide fixed or index-linked amounts of income based on their initial price, in addition to repaying that initial sum on a specified later date. The market value and the interest rate on a bond can both go down and up. On the whole, over the longer-term, investing in bonds is considered to be lower-risk than investing in equities.

Certificates of Deposit – These are a money market investments that are generally issued by banks. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

Collective Investment Schemes – A way of pooling investment with others as part of a single investment fund, such as those offered here by Prudential. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so.

Commodities – These are raw materials and foodstuffs that can be divided into categories such as: Agriculturals (e.g. wheat and potatoes), Softs (e.g. coffee and cocoa), Precious Metals (e.g. gold and silver), Non-Ferrous Metals (e.g. copper and lead) and Energies (e.g. oil and gas).

Custodian – A, normally large and reputable, financial institution that holds customers' securities for safekeeping in order to minimise the risk of their theft or loss. A custodian holds securities and other assets in electronic or physical form.

Depository – A depositary can be appointed to a fund to safekeep the assets of the fund (whether by taking them into custody, or record-keeping and verifying title of them) and oversee the affairs of the fund to ensure that it complies with obligations outlined in relevant laws and the fund's constitutional documents.

Deposits – Money that is placed with banks, building societies and other organisations to earn interest.

Deposits can be considered to be minimal risk, but there are exceptional circumstances where they can fall in value.

Derivatives – These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today.

Equities – Also known as shares or stocks, these represent a share of the ownership of a company. Shares can provide regular payments, known as dividends, and share price changes as the value of the company changes.

Over the longer term, equities can offer greater growth potential than many other asset types. But the value of equities can go up and down a lot and tend to carry a higher risk than corporate or government bonds or money market instruments.

Hedging – Aims to reduce the risk of an asset. Currency hedging is a specific example – where an investment is 'hedged back to sterling' a fund manager is trying to protect that investment from an unwanted move in sterling exchange rates. Whilst hedging can reduce potential risk it also reduces potential returns.

High Yield Bond – This is a type of bond that offers higher interest payments due to the increased risk of default by the company issuing the bond. It can also be known as a "junk" bond. These bonds will have low credit ratings of BB or below.

Investment Grade – A credit rating given to a government or corporate bond that indicates that the agency giving the rating believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade.

Liquidity – This is how quickly an asset, such as equities, corporate bonds or property, can be traded within a market and turned into cash.

London Interbank Bid Rate (LIBID) – This is the interest rate at which banks bid for cash deposits from each other.

Market Capitalisation – This is the total value of a company's issued securities at their current market prices. This figure should include all the different types of security issued by the company, such as shares and bonds, but is often used in relation to the equity or stock market capitalisation. The market capitalisation of a company is the market price per share multiplied by the number of shares in issue. Companies are often referred to as large cap (an abbreviation for large market capitalisation), mid cap (an abbreviation for a medium-sized company by market capitalisation) or small cap (an abbreviation for small market capitalisation).

Maturity – This is the length of time until an asset becomes due for repayment. For example with a Corporate Bond this is the length of time until the initial sum is repaid.

Money Market Instruments – These include bank deposits, certificates of deposits or fixed interest securities.

The return achieved from money market instruments is a combination of interest and any changes in the value of the instruments.

Money market instruments can be considered to be very low risk, but there are circumstances where they can fall in value.

Multi-Asset – A fund that invests in a range of assets, such as equities, bonds, property and alternative assets, is known as a Multi-Asset fund. By investing in a range of assets the fund is not relying on the performance of assets of the same type. This helps to provide diversification of risk.

Options – Legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

Passive or active – The funds available to you are either actively or passively managed.

- **Passively managed fund** – Aims to track the movements of an index or indices, such as the FTSE 100*. It is not possible for a passively managed fund to track its benchmark exactly because of the costs it incurs buying and selling its underlying assets. The managers of the fund tend to have lower expenses than active fund managers, and the charges to investors therefore also tend to be lower.
- **Actively managed fund** – Active funds are those that are managed with the aim of generating returns greater than the market, as measured by a benchmark or an index.

Private Equity – This is money invested in private companies (those companies that are not publicly traded on a stock exchange, such as the London Stock Exchange) or which is used to buyout publicly traded companies in order to make them private companies.

Property – Investment in commercial property (such as retail, office and industrial properties). This can be done either by investing directly (eg owning physical property) or indirectly (eg owning shares in a property company as part of a diversified range of assets). The return achieved from investing in property is a combination of rental income and changes in the value of the property; which is generally a matter of a valuer's opinion rather than fact. It should also be noted that property can be difficult to sell, which can delay withdrawing money from a fund that invests in property. Property can be considered to be lower risk than equities, but higher risk than bonds over the long-term.

Prospectus – The legal document which sets out what a fund's investment objectives are and how it will operate. It is provided by the managers of the funds Prudential invest in.

Repurchase Agreements (also known as Repo) – An agreement in which one party sells securities to another party and agrees to repurchase those securities on a specified later date at a specified price.

Shares – see Equities.

Smaller Companies – Companies quoted on a recognised exchange that have a market worth below that of the largest companies. In the UK, smaller companies are typically defined as those with market capitalisations below the 350 largest companies.

Tracking error – This is the extent to which a fund's return differs from that of its benchmark.

Transferable Securities – These are assets which are traded on capital markets. The term is probably most commonly known and used in association with Undertakings for Collective Investments in Transferable Securities (UCITS) in UK and Europe. Examples include depositary receipts and some types of warrants which are derivatives giving the right to buy or sell assets like equities at a set price on or before a future date.

Unit – Unit-linked investment funds are divided into units of equal value. When investing, an individual's contribution is used to buy units. The value of these units will fall or rise in line with the underlying investments.

PRUDENTIAL

www.pru.co.uk

LAVS379702 04/2020

Leicestershire County Council

Appendix B

Date: May 2021
My Ref: PEN/IH
Your Ref:
Contact: Pension Helpdesk
Phone: 0116 305 7886
Fax:
Email: pensions@leics.gov.uk

Dear

Local Government Pension Scheme (LGPS)
Prudential – Additional Voluntary Contributions

Officers at the Leicestershire Local Government Pension Section have identified you as an active contributor to the Leicestershire LGPS and paying Additional Voluntary Contributions (AVCs) to the Prudential.

Each Local Government Pension Fund must offer AVCs. Leicestershire use the Prudential and have partnered with them since 1996. This has worked very well for many years, but there has been a recent fall in the Prudential's service standards.

This letter is to inform you about the current service delivery standards at the Prudential, and the action the Fund is taking to address this.

The Prudential implemented a new pensions administration system in November 2020. The new system, compounded by Covid lockdowns, has created delays in processing members pension benefits and investing members contributions.

The delays are causing some members benefits at retirement to be paid late, members complaints are not being resolved in a timely fashion, and some members on-line Prudential accounts are not accurately reflecting the contributions they have paid.

The Prudential have recognised the issues and are actively working hard to resolve these. They wish to apologise to any scheme member that is being impacted by the current fall in their service standards.

The Prudential have assured Leicestershire Pension Fund Officers that all active scheme members AVCs paid will be invested correctly, and any late investments will be backdated to the date the contributions were received, so no member will be negatively financially impacted.

Leicestershire County Council

For member's retiring; Prudential's delays in disinvesting the AVCs causes a knock-on impact to the Leicestershire Fund. Unfortunately, without the value of the disinvested AVCs, the Leicestershire Pension Section cannot calculate a member's LGPS retirement benefits, thereby delaying retirement options and payments. Given the serious nature of this issue the Leicestershire Fund has reported the situation to The Pensions Regulator.

The Chair of the Leicestershire Local Pension Board and Senior Officers at Leicestershire are aware of the issues and continue to closely monitor the Prudential's service.

Leicestershire Pension Fund Officers continue to be actively engaged with the Prudential and have requested a clear improvement plan, to satisfactorily resolve this for our scheme members.

If you encounter problems, and the Prudential do not resolve these for you, please inform the Leicestershire Pension Section at pensions@leics.gov.uk
and Fund Officers will try and help resolve these for you.

I also wanted to take this opportunity to remind you that if you haven't already done so, you are able to register for a Pensions Member Self Service account by visiting our website: https://leicsmss.pensiondetails.co.uk/ . This allows instant access to details of your Local Government Pension benefits (excluding your Prudential AVCs, which you can view separately by registering online with the Prudential), and the ability to receive your Local Government pension documents electronically. Registration with Leicestershire is quick and easy; all you need is your National Insurance number and a personal email address.

I'm sorry for the problems you may be experiencing with your Prudential AVCs, and can assure you, Pension Fund Officers are working very closely with the Prudential to resolve this as quickly as possible for you.

Yours sincerely

Ian Howe

Ian Howe
Pensions Manager

Corporate Resources

Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RB
Email: resources@leics.gov.uk

Chris Tambini, Director of Corporate Resources

www.leics.gov.uk

LOCAL PENSION BOARD - 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION REPORT
JANUARY TO MARCH 2021 - QUARTER FOUR

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the main administrative actions in the quarter. The report covers governance areas including administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators. The Board is recommended to raise any areas of concern to be reported to the Local Pension Committee.

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 Appendix A 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 January to March 2021 quarter are detailed, as are the results for the full year April 2020 to March 2021. These are included as Appendix A

5. A Pensions Officer has temporarily moved from the Improvements Team to the Payments and Taxation Team for three months April to June 2021. This is designed to increase the resource dealing with deaths and payments following

a fall in these KPIs. If this delivers the improvement the Pensions Manager will develop a more permanent solution.

6. The Pensions Manager is pleased with the overall KPI results throughout the full year with all being close or above target.

Governance – Service Delivery

General Workloads

7. The tables show the position in the key work areas, January to March 2021.

January 2021

Area	Cases completed in the period	Remaining cases at the end of the period	Maximum Number of Cases at Month End
Preserved benefits	165	1185	750
Aggregations	118	804	300
Interfunds in	27	219	200
Retirements	390	550	500
Deaths	84	187	100
Transfers Out (excluding interfunds)	37	34	100
Refunds	63	201	400

February 2021

Area	Cases completed in the period	Remaining cases at the end of the period	Maximum Number of Cases at Month End
Preserved benefits	317	996	750
Aggregations	104	906	250
Interfunds in	48	245	200
Retirements	304	557	500
Deaths	86	224	100
Transfers Out (excluding interfunds)	22	46	100
Refunds	48	199	400

March 2021

8. To align with the annual report the headings from March 2021 have been changed as follows. Future months will detail these areas.

Area	Cases completed in	Remaining cases at the end	Maximum Number of Cases at Month End

	the period	of the period	
Preserved benefits	119	996	750
Retirements	341	591	600
Deaths	118	249	100
Refunds	73	237	400
Pension Estimates	118	139	250
Transfers in	63	216	200
Transfers out (excluding interfunds out)*	55	33	100
Aggregations	131	876	250
New starters set up on the pension system	330**	n/a	n/a

*Interfunds out are excluded from the figures as Regulations allow one year for members to decide whether to transfer.
**New starters are set up from IConnect interfaces load files provided by the employers.

9. The main points to note;

- Extra resource was directed to checking of preserved benefits in February 2021.

- The Pension Section normally aims to reduce aggregations to 250 in March, prior to the start of the new financial year, but this has not been possible given other work pressures. Therefore, aggregations remain higher than target. Some of the new starters are being trained on aggregations to help clear some of the easier cases. Work is also targeting some of the older cases.

- Deaths remain high, but the number of new deaths is now at pre Covid levels, so the Pensions Manager expects to see a reduction in death numbers over coming months.

Complaints – Internal Disputes Resolution

10. 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.

11. In the period January to March 2021 there was one new IDRP stage 2 appeal.

There was progress on two existing Stage 2 case;

- One case was referred back to the member's previous employer to reconsider their original Stage 1 decision.
- The second case, which was already with the Pensions Ombudsman for final determination, was made in favour of the Administering Authority.

Data Improvement

12. 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 January to March 2021 quarter were:

- A total of 9 employers have gone live, including the priority one employers Leicester College, Wigston Academy Trust and Embrace.
- Fire Civilians new payroll provider have generated the i-Connect report and is now uploading the information to i-Connect. No delays are expected at Year End.
- Monthly monitoring of data submitted by employers has improved. The process has become more automated saving time and Officers can now identify employer rate discrepancies to react more quickly to employer changes.
- Rutland County Council was aiming to go-live but due to issues with their report, this has been pushed back to 2021/22.
- Year End information and documents are being provided by employers; the deadline is the 30 April 2021.
- 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.

13. As at 30th April 2021, a total of 122 out of 190 employers are live on i-Connect which is 64% of employers and approximately 32,325 active members are live on i-Connect which is 92% of members.

Plan for 2021/22

14. To help Officers achieve the deadline of getting all the remaining 68 employers onboarded to i-Connect by 31/3/2022, the employers will be split into 3 groups and target each group at a set date:

- Phase 1: This will consist of the remaining priority 1 employers and some priority 2 & 3 employers who we expect can be processed quickly. Correspondence to these employers went out at the end of March requesting that the April 2021 report is sent to us by 15th May.

- Phase 2: This will consist of the remaining priority 2 employers and some priority 3 employers.

Correspondence to these employers will go out at the start of June requesting that the April 2021 report is sent to us by 15th July.

- Phase 3: This will consist of the remaining priority 3 employers, who have fewer than a dozen members each.
  Correspondence to these employers will go out at the start of August requesting that the April 2021 report is sent to us by 15th September.

15. The dates are flexible and if resources allow Officers can target phase 2 or phase 3 employers before the dates specified above. In case any of the priority 3 employers are struggling to extract and upload spreadsheets into i-Connect as an alternative, Officers will allow the employer to use the facility of entering the data manually through i-Connect. In the event an employer cannot go live in 2021/22, they will be moved to 'phase 4' and will be dealt with after the other employers have gone live.

Fusion

16. East Midlands Shared Services (EMSS) are moving some of the employers they provide the payroll service, from the Oracle payroll system to the new Fusion payroll system. There are now 16 employers live on i-Connect employing a total of approximately 1,750 scheme members, that have not had data posted from October 2020 onwards due to the challenges of extracting data from the new payroll system into the i-Connect format.

17. Completion of the data for these employers into the i-Connect format is critical for year-end and to achieve statutory deadlines, therefore work is progressing in this area. The report totals now balance and the next key points needed in the report are;

    - Full-Time Equivalent pays / Dates of leaving / Dates joined fund / Dates of birth / Mandatory address information / Missing members

18. Officers provided feedback to EMSS on these points on the 27 April 2021. Once these are resolved, EMSS will be required to sign to confirm the report is accurate, enabling Pension Officers to load the data into the Pension administration system. The deadline for the completion of the report is the 21 May 2021.

19. Fund Officers are aware, as failure to complete year-end and produce annual benefit statements and/or taxation statements will cause a breach of pensions law and will require notification to The Pensions Regulator.

20. The monthly posting position as at 30 April 2021 is attached as Appendix B

Breaches Log

21. 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.

22. As agreed with the Chair of the Local Pension Board, there is one active material breach. This regards the late payment of members pension benefits with Prudential Additional Voluntary Contributions (AVCs). Because of the Prudential's current failings, their delays are impacting on the time taken for the Pension Section to make payment of members pension benefits. This is detailed in a separate report to the Board.

Year-End

23. The Pension Section started preparing for 2020/21 year-end in January 2021. The employers received the year-end layouts and completion details.

24. The deadline for submission of the year-end information was the 30 April 2021.

25. The position at 30 April 2021 was;

- 118 employers have provided their year-end data.
- 77 employers have not provided their year-end data. These employers have been reminded.

- Of those that have provided the data, 53 have been reconciled and the Pension Section is working through and data queries prior to sending these to employers for resolution. The remaining cases are being worked through.

26. By the 31 July 2021 all data queries must be resolved and sent back to the Pension Section.

27. The Pension Section will then update members records with the relevant data, prior to running member's annual benefit statements by the statutory deadline of the 31 August 2021.

Governance – Audit

28. During the quarter January to March 2021, the Pension Fund received an Internal Audit report on Governance and Risk.

29. There were a small number of recommendations made regarding assessing and managing employer risk. Officers are working through these and the Pensions Manager has developed a Fund Policy on employer risk that is included within a separate report to the Board.

30. Officers have been asked to report to the Board the findings of the recent cyber security exercise. This is detailed in a separate report to the Board.

Governance - Regulation Changes

31. During the quarter January to March 2021, Government disapplied the Public Sector Exit Cap that was reported to the Board at the February 2021 meeting.

32. The law change had created an issue for employers and the Pension Fund as the Exit Cap Regulations and the LGPS Regulations did not align. In response, following appropriate legal advice the Committee on 27 November 2020 agreed a proposed solution for those cases where members retired from 4 November 2020.

33. Disapplying the exit cap has reversed this and reintroduces the LGPS Regulations prior to the 4 November 2020.

34. Fund Officers liaised closely with the Fund’s employers during the period of change, and the Pensions Manager is pleased to confirm the Leicestershire Fund has no scheme members that breached the £95,000 cap and then subsequently retired, so there are no retrospective benefits to be calculated.

35. Fund Officers have worked through several administrative changes required to reintroduce the position prior to the 4 November 2020, this included informing all the Fund’s employers.

36. Whilst Government issued the direction disapplying the exit payment cap on the 12 February 2021, HM Treasury also issued guidance on the same day. The guidance states: It is still vital that exit payments deliver value for the taxpayer and employers should always consider whether exit payments are fair and proportionate. HM Treasury will bring forward proposals at pace to tackle unjustified exit payments. It is therefore expected further changes will follow and the Pension Manager understands these are likely to be in 2021.

Governance – National

37. The Pensions Regulator (TPR) has announced that it intends to amalgamate its current 15 codes into a single code of practice. A consultation will take place later this year with the intention of the new single code being in place towards the end of 2021. Officers understand much of the current information will remain, but it will include new areas, cyber security and potentially some investments.

Governance – Fund Policies

38. During the quarter January to March 2021, the Fund consultation on changes to the Fund’s Funding Strategy Statement on employer risks and exits ended. A separate report to the Board details this.

39. The Pensions Manager has developed a Fund Policy on employer risk that is detailed in the separate report.

Governance – Actuarial

40. In the period, Officers completed the actuarial tender. Hymans Robertson, the Fund's existing Actuary were successful and will remain the Fund Actuary for the following five years, with a possible extension of five further years. Hymans will attend the Pension Board meeting in August to present to the Board on the following items;

- The role of the Actuary and how it links with the Leicestershire Fund
- The Fund's valuation process
- Assumptions used in the valuation
- A mid-valuation position (the current valuation period is 1 April 2020 to 31 March 2023)
- Government Actuary Department's (GAD) separate valuation process and any potential impact

Governance – Employer Risk

41. 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.

42. 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.

43. 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.

44. 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.

45. As at the 30 April 2021, cases outstanding are detailed in the tables below.

Bonds Outstanding

Pre April 2019 or pass-through	Letting employer and Contractor	Full or Capital Cost Bond / Value and End Date	Comments

Pre April 2019 (contract extended to 31/3/2022)	Tudor Grange (Samworth) to CSE Ltd	Full. £58,000 to 31/3/2022 (previous bond lapsed on 31/3/2020 when original contract was due to end)	The terms of the bond have now been agreed. It is expected this will be completed very shortly.
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)	The terms of the bond have now been agreed. It is expected this will be completed very shortly.
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 Officers are waiting for MCS to confirm that they will sign a new document. April 2021.

Admission Agreement Outstanding (some also have bonds)

Pre April 2019 or pass-through	Letting employer and Contractor	Full or Capital Cost Bond / Value and End Date	Comments
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. Final versions of the admission agreement and bond issued 1 April 2021 and awaiting signature.
Pass through 1 January 2021	Beacon Academy to Hutchinson Catering	Capital Cost bond of £13,000 (5-year contract with an additional 2 years optional)	The Fund received the pass through form on 14 December 2020 Draft bond and admission agreement circulated January 2021 Received email on 18 January 2021 from Beacon stating that the TUPE date on the pass through form of 13/2/2021 was incorrect and should be 1/1/2021. Revised admission agreement sent 21 January 2021 Officers have chased up both the

			admission agreement and bond February 2021 The admission agreement has been agreed but the bond still needs to be finalised. Officers are liaising with the contractor and bank to get this completed.
Pass through 12 February 2021	City Council (City of Leicester College) to Atalian Servest	Capital Cost bond of £86,000 3 year contract	The Fund received the pass through form and list of members on 25 January 2021 Draft bond and admission agreement circulated 9 February 2021 Bond has been agreed by guarantor and Atalian. April 2021.
Pass through 12 April 2021	City Council (Shaftesbury School) to Compass	No Bond is required at this time 3 Year contract	The Fund received the pass through form and list of members on 10 March 2021 Draft bond and admission agreement circulated 1 April 2021

46. As part of the Fund Employer risk policy, officers are currently reviewing the historic bonds. Officers have identified the following Transferee Admission Bodies where a bond is needed. Previously it was either considered a bond was not required or the bond had lapsed. This work will be ongoing until all the cases have been reviewed.

Employer Bond Review

Pre April 2019 or pass-through	**Letting employer and Contractor**	**Full or Capital Cost Bond / Value / Start Date / length of bond**	**Comments**
Pre April 2019	Leicestershire County Council to Rushcliffe CARE	Capital Cost bond of £61,000 March 2021 3 years	Officers issued the bond for agreement in April 2021

Pre April 2019	City Council to G4S	Capital Cost bond of £57,000 May 2021 3 years	Officers issued the bond for agreement in April 2021
Pass through	Blaby DC (2019 contract) to SLM	Capital Cost bond of £31,000 March 2021 3 years	Member at the employer turned 55 Officers issued the bond for agreement, but the bank have asked for amendments to be made. Officers are looking into the amendments before reissuing. April 2021

47. Officers have also identified six cases where bonds are currently in place, but the value potentially needs increasing or the length of the bond extending.

48. The two case were completed in the quarter are listed below;

- Hinckley Academy and John Cleveland Sixth Form College to Caterlink
- Police to Mitie

<u>Governance – Knowledge and Understanding</u>

49. Members of both the Local Pension Board and Committee should demonstrate a suitable level of knowledge and understanding. A Training Policy was approved November 2019 by the Committee which set out the Fund's approach to delivery, assessment and recording plans. Officers have reviewed this policy and do not propose any changes at this time.

50. Board and Committee Members were asked to provide Officers with an update of their knowledge and understanding. Anonymised results are attached as Appendix C. Following this, Officers are providing a training session to Members on the 26 May 2021. Future training sessions will be organised around future agenda items, topical issues, key areas of importance, member feedback and specific requests for training. Members are also encouraged to complete The Pension Regulator's free online learning programme called the Public Service toolkit https://education.thepensionsregulator.gov.uk/login/index.php

51. Members individual training plans are retained by Officers and this is collated and included in the Fund's Annual Report.

Governance – Fraud Initiative and Scams

52. The Pension Manager is keen to protect the Fund's scheme members from transfer scams, and the Pension Section has signed the Pension Regulator's scam pledge. The Section has check lists that Officers complete for transfers out, both within the UK and overseas.

53. If this highlights a possible scam, the case is escalated to a Team Manager to investigate and who will speak to the scheme member.

54. Additional colleagues on the Pensions Payment and Taxation Team have attended The Pension Regulators tutorial on scams.

Pension Board and Committee Workplan

55. Appendix D sets out the general workplan of topics that are to be considered throughout the year and their frequency for the Board and Committee. The plan divides topics by Governance, Funding, Investment and Administration headers to ensure the Board and Committee are focused on their roles and responsibilities as set out in the respective Terms of References.

56. The Plan is by no means exhaustive and items will be added onto the agenda as required and topics arise.

Recommendation

57. It is recommended the Board considers the report and raises any areas of concern with the Local Pension Committee.

Equality and Human Rights Implications

None specific

Appendix

Appendix A – Key Performance Indicators January to March 2021

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

Appendix C – Training Assessments Board and Committee

Appendix D – Pension Fund Work Plan

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 - January to March 2021

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%	89%	►	93%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲	100%
Pension payments made within 10 working days of receiving election	95%	90%	▼	93%	Experience of dealing with Section - rated at least good or excellent	95%	91%	►	96%
Death benefits/payments sent to dependant within 10 working days of notification	90%	75%	▼	88%	Establish members thoughts on the amount of info provided - rated as about right	92%	93%	▲	94%
					Establish the way members are treated - rated as polite or extremely polite	97%	100%	▲	100%
Good or better than target	▲				Email response - understandable	95%	89%	▼	93%
Close to target	►				Email response - content detail	92%	90%	►	93%
Below target	▼				Email response - timeliness	92%	92%	▲	97%

Full Year - 1 April 2020 to 31 March 2021

Business Process Perspective	Target			Customer Perspective - Feedback	Target		
Retirement Benefits notified to members within 10 working days of paperwork received	92%	93%	▲	Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲
Pension payments made within 10 working days of receiving election	95%	93%	►	Experience of dealing with Section - rated at least good or excellent	95%	95%	▲
Death benefits/payments sent to dependant within 10 working days of notification	90%	86%	►	Establish members thoughts on the amount of info provided - rated as about right	92%	97%	▲
				Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Good or better than target	▲			Email response - understandable	95%	92%	►
Close to target	►			Email response - content detail	92%	93%	▲
Below target	▼			Email response - timeliness	92%	96%	▲

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APPENDIX B - Position as at 30th April 2021

EMPLOYERS (190 total)	Category of Employer	Live on iConnect?	Priority / Phase	Current Status	Oracle / Fusion payroll	Handed over to ER
Live on i-Connect (122)						
Embrace AT (incl. Brockington College)	Large ER	Yes	1	Live		Yes
Leicester College	Large ER	Yes	1	Live		Yes
Wigston Academies Trust	EMSS	Yes	1	Live	Fusion - Oct 20	No
Bradgate Park Trust	EMSS	Yes	3	Live	Fusion - Oct 20	No
Better Futures MAT (Gateway 6th form college)	EMSS	Yes	2	Live	Oracle	Yes
Rendell Primary School	Medium ER	Yes	2	Live		Yes
Queensmead Primary Academy	Medium ER	Yes	2	Live		Yes
Midland Academies Trust	Medium ER	Yes	2	Live		Yes
Whetstone PC	Small ER	Yes	3	Live		Yes
FIRE SERVICE CIVILIANS iConnect	Large ER	Yes	1	Live		Yes
ASHBY WOULDS TOWN COUNCIL	Small	Yes		Live		Yes
Avanti School Trust	Medium	Yes		Live		Yes
Barwell Parish Council	Small	Yes		Live		Yes
Bellrock Management	Small	Yes		Live		Yes
Blaby DC	Large	Yes		Live		Yes
BRAUNSTONE TOWN COUNCIL iConnect	Small	Yes		Live		Yes
Brookvale High School	Large	Yes		Live		Yes
Broughton Astley PC	City	Yes		Live		No
Charnwood BC	Large	Yes		Live		Yes
COUNTESTHORPE PC iConnect	Small	Yes		Live		Yes
David Ross Education Trust	Medium	Yes		Live		Yes
De Montfort University	Large ER	Yes		Live		Yes
East Midland Shared Services	EMSS	Yes		Live	Oracle	No
EMH Group (East midlands homes/housing group)	Small ER	Yes		Live		Yes
Enderby Parish Council	Small	Yes		Live		Yes
ESPO	EMSS	Yes		Live	Oracle	Yes
Foxfield Acad / CIT Academy	Small ER	Yes		Live		Yes
GLEN PARVA PARISH COUNCIL	Small	Yes		Live		Yes
Govindas (Avanti Schools)	Small	Yes		Live		Yes
Harborough DC	City	Yes		Live		No
Hinckley & Bosw'th BC	Large	Yes		Live		Yes
Learn Academy Trust	Medium	Yes		Live		Yes
Leicester City Council	City	Yes		Live		No
Leicestershire CC (payroll 10 & 23)	EMSS	Yes		Live	Oracle	No
Leics Forest East PC	Small	Yes		Live		Yes
Long Field Academy	Medium	Yes		Live		Yes
Lough University	Large	Yes		Live		Yes
Loughborough College	Large	Yes		Live		Yes
LUTTERWORTH T C	Small	Yes		Live		Yes
MARKET BOSWORTH PARISH COUNCIL	Small	Yes		Live		Yes
Melton B C	City	Yes		Live		No
Melton Learning Hub	Small	Yes		Live		Yes
Mountsorrel PC	Small	Yes		Live		Yes
MOWBRAY EDUCATIONAL TRUST	Medium	Yes		Live		Yes
North West Leics D C	Large	Yes		Live		Yes
Oadby and Wigston BC iConnect	EMSS	Yes		Live	Oracle	Yes
OAK MAT	Medium	Yes		Live		Yes
Priory AT Belvoir Academy, The	New ER	Yes		Live		Yes
Rawlins Academy	Large ER	Yes		Live		Yes
Rise A CofE MAT (was Diocese of Leicester AT) SAAF payroll	MAT	Yes		Live		Yes
Scraptoft PC	Small	Yes		Live		Yes
SLM (Blaby DC 2006 contract)	Small ER	Yes		Live		Yes
SLM (Blaby DC 2019 contract)	Small ER	Yes		Live		Yes
SLM (Oadby and Wig)	Small ER	Yes		Live		Yes
SLM Everyone active (NW Leisure)	Large ER	Yes		Live		Yes
SYSTON TOWN COUNCIL	Small ER	Yes		Live		Yes
The Chief Constable & The OPCC	Large	Yes		Live		Yes
The Mead Educational Trust	Medium	Yes		Live		Yes
THURMASTON PARISH COUNCIL iConnect	Small ER	Yes		Live		Yes
Welland Park CC	Medium	Yes		Live		Yes
WQE and Regent College group	Large ER	Yes		Live		Yes
DISCOVERY SCHOOLS MAT	Acad - EMSS Fusion	Yes		Live	Fusion - Oct 20	No
Dorothy Goodman School	Acad - EMSS Fusion	Yes		Live	Fusion - Oct 20	No
Forest Way School	Acad - EMSS Fusion	Yes		Live	Fusion - Oct 20	No
Gartree High School	Acad - EMSS Fusion	Yes		Live	Fusion - Oct 20	No

Ibstock Community College	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Kirby Muxloe Primary School	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
LIFE Academy Trust	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Lutterworth High School	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Mountfields Lodge School	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Redmoor Academy	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
South Wigston High School	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Stanton under Bardon Primary	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Success Academy Trust	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
The Pastures Primary School	Acad - EMSS Fusion	Yes	Live	Fusion - Oct 20	No
Apollo Partnership Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
Asfordby Hill Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Ash Field Academy	Acad - EMSS Oracle	Yes	Live	Oracle	No
Ashby Hill Top Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Ashby School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Attenborough Learning Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
Barwell CofE Academy	Acad - EMSS Oracle	Yes	Live	Oracle	No
Battling Brook Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Birkett House School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Bottesford CofE Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Bradgate Education Partnership	Acad - EMSS Oracle	Yes	Live	Oracle	No
Castle Donington College	Acad - EMSS Oracle	Yes	Live	Oracle	No
Church Hill CofE Junior School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Cobden Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Falcon Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Frisby CE Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Glebelands Prim Sch (City)	Acad - EMSS Oracle	Yes	Live	Oracle	No
Hall Orchard Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Hastings High School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Herrick Primary School	Acad - City Oracle	Yes	Live	Oracle	No
Holywell Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Inspiring Primaries Academy Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
Ivanhoe College	Acad - EMSS Oracle	Yes	Live	Oracle	No
LIONHEART MAT	Acad - EMSS Oracle	Yes	Live	Oracle	No
Loughborough CofE Primary	Acad - EMSS Oracle	Yes	Live	Oracle	No
Measham CofE Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Odyssey Education Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
Old Dalby CofE Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Outwoods Edge Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Oval Learning Partnership	Acad - EMSS Oracle	Yes	Live	Oracle	No
OWLS MAT	Acad - EMSS Oracle	Yes	Live	Oracle	No
Queniborough CofE Primary Sch	Acad - EMSS Oracle	Yes	Live	Oracle	No
Robert Bakewell Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Rothley CofE Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Scholars Academy Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
South Charnwood High School	Acad - EMSS Oracle	Yes	Live	Oracle	No
St Mary & St John Rutland	Acad - EMSS Oracle	Yes	Live	Oracle	No
St Michael & All Angels CofE	Acad - EMSS Oracle	Yes	Live	Oracle	No
St.Peters CofE Primary Academy	Acad - EMSS Oracle	Yes	Live	Oracle	No
Stonebow Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Symphony Learning Trust	Acad - EMSS Oracle	Yes	Live	Oracle	No
The Kibworth School	Acad - EMSS Oracle	Yes	Live	Oracle	No
The Learning without Limits AT	Acad - EMSS Oracle	Yes	Live	Oracle	No
The Market Bosworth School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Thringstone Primary School	Acad - EMSS Oracle	Yes	Live	Oracle	No
Thrussington CofE Primary Sch	Acad - EMSS Oracle	Yes	Live	Oracle	No
Townlands CofE Primary Academy	Acad - EMSS Oracle	Yes	Live	Oracle	No

Phase 1: Outstanding Employers (29)

Rutland CC (paid in-house)	**Large ER**	**No**	**1**
Brooke Hill Academy Trust	EPM	No	1
CASTERTON B&EC AT	EPM	No	1
L.E.A.D ACADEMY MAT	EPM	No	1
Rutland CC (paid by EPM)	EPM	No	1
The Rutland Learning Trust	EPM	No	1
Tudor Grange Academies Trust	EPM	No	1
UPPINGHAM COMMUNITY COLLEGE	EPM	No	1
Aspens (City Crown Hills)	Small ER	No	1
Aspens (Lutterworth AT)	Small ER	No	1
Aspens (Mowbray Ed Trust 2)	Small ER	No	1
Aspens (Mowbray Ed Trust)	Small ER	No	1
Aspens (Nova ET)	Small ER	No	1
BEACON ACADEMY MAT	Medium ER	No	1
Capita IT City of Leicester	Medium ER	No	1

Capita IT City Rushey Mead	Medium ER	No	1	
Capita Services ex Charnwood	Medium ER	No	1	
Lady Jane Grey Primary School	Medium ER	No	1	
Lutterworth Academies Trust / Lutterworth College	Medium ER	No	1	
Nova Ed Trust (Melton Vale)	Medium ER	No	1	
Rutland & District Schools' Federation, The	Medium ER	No	1	
SOUTH LEICS COLLEGE	Medium ER	No	1	
St Therese of Lisieux / St Gilbert of Sempringham	Small ER	No	1	
St Thomas Aquinas CMAT	Large ER	Partly	1	
Stephenson Melton Brooksby Group (SMB)	Large ER	No	1	
Stephenson Studio School	Small ER	No	1	
The Futures Trust (Hinckley Academy)	Medium ER	No	1	
The Vines Academy Trust	Large ER	N/A	1	
Woodbrook Vale School	Medium ER	No	1	
Phase 2: Outstanding Employers (17)				
ASHBY TOWN COUNCIL	Small ER	No	2	
Atalian Servest (City Food Co Ltd)	Small ER	No	2	
Atalian Servest (Sour and Moat)	Small ER	No	2	
Caterlink (Fulhurst CC)	Small ER	No	2	
Caterlink (Mead ET Primaries)	Small ER	No	2	
Caterlink (Mead ET Sec)	Small ER	No	2	
Caterlink (Mowbray Ed Trust)	Small ER	No	2	
Caterlink (Tudor Grange AT)	Small ER	No	2	
Caterlink (WQE1 Group)	Small ER	No	2	
MCS Cleaning	Small ER	No	2	
Quadron Services	Small ER	No	2	
Ridge Crest Cleaning	Small ER	No	2	
Ryhall CE Academy	Small ER	No	2	
SHEPSHED TOWN COUNCIL	Small ER	No	2	
Turning Point (City Council)	Medium ER	No	2	
Turning Point (County Council)	Medium ER	No	2	
Voluntary Action Leicester	Small ER	Yes	2	
Phase 3: Outstanding Employers (22)				
ANSTEY PARISH COUNCIL	Small ER	No	3	
Bagworth & Thornton PC	Small ER	No	3	
Blaby Parish Council	Small ER	No	3	
Chartwells	Small ER	No	3	
Churchill Contract Services	Small ER	No	3	
Cleantec Services (AET)	Small ER	No	3	
Coombes Catering Ldt	**Small ER**	**No**	**3**	**With Employer**
CSE (Robert Smyth Tudor Grange)	Small ER	No	3	
CSE (Samworth Tudor Grange)	Small ER	No	3	
East Goscote Parish Council	Small ER	No	3	
East West Community Centre Ltd	Small ER	No	3	
Fusion Lifestyle	Small ER	No	3	
G4S (City Council)	Small ER	No	3	
Groby Parish Council	Small ER	No	3	
Hutchinson Catering	Small ER	No	3	
Kirby Muxloe PC	Small ER	No	3	
Oakham TC	Small ER	No	3	
Rushcliffe Care Ltd	Small ER	No	3	
SILEBY PARISH COUNCIL	Small ER	No	3	
Solo Service Group (Leics CC)	Small ER	No	3	
Thurcaston & Cropston PC	Small ER	No	3	
Waterloo Housing Group (WHG, was Seven Locks / Plat	Small ER	No	3	
Phase 4: Outstanding Employers (0)				

INACTIVE - Left LGPS / joined another ER / Inactive EE's

Age Concern
AXIS Property Services (Melton BC)
BARROW UPON SOAR PC
Brocks Hill Primary
Capita IT Crown Hills
Capita IT Judgmeadow CC
CORPUS CHRISTI MAT
Countesthorpe Leysland CC
Derbys Firefighters

Future Cleaning Services				
G Purchase Construction LTD				
I Care				
Mercenfeld Primary School				
Notts Firefighters				
Oakthorpe D & A PC				
Pinnacle Group				
Prospects Services				
Spire Homes Limited				
St Thomas Aquinas CMAT				
Stafford Leys Comm Primary				
Humphrey Perkins School	Medium ER	Yes	2	Live
Martin High School, The	Medium ER	Yes	2	Live
Leics Firefighters	Large ER	Yes		Live
G4S (Constabulary)	Small ER	No	3	
BEAUCHAMP (part of Lionheart)		No	1	
Mellors Catering Ltd	Small ER	No	3	
Limehurst Academy	Medium ER	No	2	
A B M Catering Ltd	Small ER	No	3	
King Edward VII S&S College	Acad - EMSS Oracle	Yes		Live

Committee and Board Members Training Needs Assessment - May 2021

	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	LPC Com	PB Board	PB Board	PB Board	PB Board	PB Board
General Understanding - LPC and PB															
General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment	2	4	4	2	3	3	2	3	3	3	3	2	3	3	3
The roles and powers of the UK Government in relation to the LGPS	3	3	3	2	3	1	2	3	2	2	2	2	2	3	2
The main features of the LGPS legislation relating to benefits, administration and investment	3	3	4	2	3	3	2	3	2	3	3	2	3	3	2
The role of the Council as administering authority in relation to the LGPS in relation to the Fund	3	4	4	2	3		3	2	3	2	4	3	3	3	3
The stakeholders of the pension fund (including members and employers) and the nature of their interests	3	4	4	3	3	3	3	3	2	3	3	2	3	3	2
Investment pooling and the role of LGPS Central	2	3	4	4	3	3	3	2	3	3	3	2	2	3	2
The role of the LGPS Scheme Advisory Board and how it interacts with other bodies in the governance structure	2	2	4	3	3	2	2	3	2	2	3	1	2	3	2
The roles and powers of the Pensions Regulator	3	2	4	3	2		3	3	2	2	3	1	2	3	2
Awareness of the Pensions Regulator's Code of Practice for public sector pension schemes	2	2	3	2	2	2	2	2	2	2	2	2	2	3	2
The role of the Pension Board	3	3	4	4	3		3	3	2	2	4	3	3	3	4
The roles of the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of LGPS	2	2	3	2	3	2	3	3	2	2	3	2	3	3	2
The role and statutory responsibilities of the Administering Authority's treasurer and monitoring officer	2	3	4	4	3		3	3	2	2	2	2	2	3	2
Accounting and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice	2	3	3	2	3	2	2	2	3	3	2	2	4	3	2
How the Fund communicates with stakeholders and consults with them on changes	3	3	4	3	3		2	3		3	4	2	3	3	2
Key risks facing the Fund	2	3	3	4	3	2	3	3	2	3	3	2	4	3	3
How pension fund management risks are monitored and managed	3	3	3	4	3	2	2	2	2	3	3	3	4	3	2
Potential conflicts of interest, how they are identified and managed	3	3	4	4	2	3	3	3	2	2	2	2	3	3	2
An understanding of how breaches in law are reported	2	3	4		2	2	1	2	2	2	3	2	3	3	2
Funding - LPC															
The role of the fund actuary.	3	4	4		3	3	1	2	3	3	1	2		3	2
The actuarial valuation process, including developing the funding strategy in conjunction with the fund actuary	3	3	3	4	3	2	1	3	3	3	3	1		3	1
The key assumptions in the actuarial valuation	2	3	3	4	3	2	1	2	3	3	1	1		3	1
The types of employer eligible to join the Fund	3	4	3	3	3	3	3	2	3	3	3	2		3	1
The importance of the employer covenant and the relative strengths of the covenant across the Fund's employers	2	3	3	3	3	2	2	2	2	3	1	2		3	1
How employers' contribution rates are set	3	3	3		3	2	2	3	3	3	3	3		3	2
Where an employer leaves the Fund, how the promised pensions liabilities are paid for	1	3	3	3	2	2	1	2	2	2	2	2		3	2
How employer outsourcings and bulk transfers are dealt with	1	3	2	3	2		1	2	2	2	2	1		3	1
An understanding of the Fund's Funding Strategy Statement	2	3	3	4	3	2	2	3	3	3	3	1		3	2
Investment - LPC															
The role of the Fund's investment in paying future pension payments	3	4	3	4	3			3	3	3	1	2		3	3
The risk and return characteristics of the main asset classes (equities, bonds, property etc) the role of these asset classes in long-term pension fund investing.	3	4	3	4	3	2	2	2	3	3	2	2		3	2
Awareness of the Fund's Statement of Investment Principles	3	3	3	4	3	2	2	2	2	3	2	2		3	2
Awareness of the Fund's current investment strategy	3	4	2	4	3		3	2	2	3	2	2		3	2
Key aspects of investment strategy and investment manager monitoring	3	4	3	4	3	2	2	3	2	3	1	2		3	1
The Fund's approach to responsible investment	3	3	4	4	3	3	3	3	3	3	2	2		3	2
The Fund's membership and role of the Local Authority Pension Fund Forum (LAPFF)	2	3	2	3	2	2	3	3	2	2	1	2		3	1
Pensions Administration - PB															
The Fund's pensions administration strategy and how the service is delivered to the Fund's members and employers	3	3	4	2	3	2	2	2	3	1	3	2	3	3	2
The Fund's strategy of communicating with key stakeholders including members and employers	3	4	4	3	3	2	1	2	2	1	3	2	3	3	2
Understanding of the required and adopted scheme policies and procedures relating to: • member data maintenance and record-keeping processes • internal dispute resolution • contributions collec...	2	3	4	2	3	2	2	2		2	3	2	3	3	2
LGPS discretions and how employers' discretionary policies impact on the pension fund	1	2	4	2	3	2	1	2	1	1	4	2	3	3	2
The tax treatment of pensions including pensions, retirement lump sums, annual allowance and lifetime allowance	2	4	3	2	3	2	2	3	2	2	4	3	4	3	2
The Fund's Additional Voluntary Contribution (AVC) arrangements, the choice of investments offered to members and the oversight of the provider's performance	1	3	3	1	3	2	1	3	3	2	3	3	3	3	2
Statutory deadlines and Key Performance Indicators (KPIs)	2	3	3	2	2		2	2	3	2	2	2	4	3	2

1 =	I have no knowledge
2 =	I have some, but limited, knowledge
3 =	I am reasonably familiar but additional training would be helpful
4 =	I am fully conversant

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Appendix D

Pension Board	Quarterly	Twice Yearly	Annually
Governance			
Declaration of Conflict of Interest	X		
Policies/Strategies			X
Business Planning			X
Budget Setting/Monitor			X
Annual Report and Accounts			X
Annual Governace Statement			X
Audit Matters	X		
Risk Register	X		
Business Continuity	X		
Data Security	X		
Breaches	X		
Regulatory Update	X		
Update from Pension Committee			X
Pool Governance Issues			X
Review of Effectivenes			X
Training	X		
Action Taken by ISC			X
Funding			
Actuarial Valuations			X
Funding Strategy Statement			X
Interim Funding Update			X
Investment			
Strategy Review			X
Policies/Strategies Investment Strategy Statement			X
Responsible Investment			X
Strategy Implementation Asset Pooling/Manager Appointment			X
Monitoring of Investments - Market Update/Investment Managers/Performance			X
Administration			
Administration and Communication Strategy			X
Performance Indicators	X		
Update on Projects	X		

Pension Committee	Quarterly	Twice Yearly	Annually
Governance			
Declaration of Conflict of Interest	X		
Policies/Strategies	X		
Business Planning	X		
Budget Setting/Monitor			X
Annual Report and Accounts			X
Annual Governace Statement			X
Audit Matters			X
Risk Register	X		
Business Continuity			X
Data Security			X
Breaches			X
Regulatory Update			X
Update from Pension Board			X
Pool Governance Issues	X		
Review of Effectivenes			X
Training	X		
Action Taken by ISC	X		
Funding			
Actuarial Valuations			X
Funding Strategy Statement			X
Interim Funding Update			X
Investment			
Strategy Review (Strategic Asset Allocation, SAA)			X
Policies/Strategies Investment Strategy Statement (ISS)			X
Responsible Investment plan			X
Strategy Implementation Asset Pooling/Manager Appointment	X		
Monitoring of Investments - Market Update/Investment Managers/Performance	X		
Administration			
Administration and Communication Strategy			X
Performance Indicators			X
Update on Projects			X

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LOCAL PENSION BOARD - 24 MAY 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 advise the Board of the outcome of the consultation on changes to the Funding Strategy Statement in relation to regulation changes on employer risks and exits. The Board is further asked to consider the Fund's Policy on Employer Risk.

Background

2. The Board received a report on Employer Risks and Exits at its meeting on the 8 February 2021.

3. The Board noted; the draft Funding Strategy Statement (FSS) in relation to changes on employer risks and exits with the Fund employers and noted a further report would follow with the outcome of the consultation and the final version of the Funding Strategy Statement. The FSS is attached as Appendix A.

Changes

4. 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.

5. Whilst there is no requirement for the Fund to use any of the new powers, 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.

   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.

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.

Consultation

6. The Pensions Committee supported the draft FSS, and approved the consultation with the Fund Employers, at its meeting on the 22 January 2021. The consultation started on the 1 February 2021 and lasted four weeks, ending on the 28 February 2021.

7. During the consultation a small number of employers contacted the Pensions Manager informally, to request further understanding, and all confirmed they were in support of the changes. No Fund employer wrote formally to the Pensions Manager, and there were no issues raised challenging the proposed changes to the FSS by any of the Fund employers.

8. On the 2 March 2021, (just after the Fund’s consultation ended), the Ministry of Housing, Communities and Local Government (MHCLG) produced statutory guidance to Funds on employer flexibilities. On the 5 March 2021 the Scheme Advisory Board provided more detailed guidance to be read alongside of MHCLG’s guidance.

9. The Fund has taken internal Legal advice and it has been confirmed both MHCLG’s statutory guidance and the Scheme Advisory Board’s guidance do not impact on the Fund approach or wording in the FSS. However, the Pensions Manager has taken the opportunity to make the wording more explicit in the FSS in regards employer exits.

10. If an employer leaves the Fund in surplus, and it is proven there is a pension risk share in place between the outsourcing employer and contractor, an element of the surplus may be paid to the contractor. The wording in the FSS has been made more explicit, designed to assist employers on the calculation method, in this scenario. This is highlighted in green in the FSS on pages 45 and 46.

11. The FSS will be taken to Pensions Committee on the 4 June 2021 for approval.

Policy on Employer Risk

12. The Pensions Manager has drafted a Fund Policy on Employer Risk (Appendix B). This is a document that will be published on the Fund’s website and is

designed to assist the Fund employers on how the Fund deals with employer risk.

13. The Policy details how the Fund will score employer risk and how this can influence how employers are considered at Fund valuations. Employers will be encouraged to provide information to Fund Officers, and it will be in their interest to do so, thereby allowing Officers to make more informed judgements of their risk.

14. The Policy also includes detail on how additional security is required by the Fund, designed to protect the Fund and outsourcing employers who transfer staff to contractors, under transfer of undertaking protection of employment rules (TUPE)

15. For openness and transparency, the Policy also includes details of the new employer flexibilities although the Fund policy for this is detailed within the FSS.

16. This is attached as Appendix B. In conjunction with the FSS, the Fund's Policy on Employer Risk will be taken to Pensions Committee on the 4 June 2021 for approval.

Recommendation

17. It is recommended that Board note;

    a. The Funding Strategy Statement
    b. The Fund's Policy on Employer Risk

Equality and Human Rights Implications

None specific

Background Papers

Employer Risks and Exits Local Pension Board 8 February 2021.

MHCLG's statutory guidance

Scheme Advisory Board's guidance;

Appendices

Appendix A – Funding Strategy Statement

Appendix B – Fund Policy on Employer Risk (including the Fund's Employer Risk Template)

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

Appendix

Leicestershire County Council Pension Fund

Funding Strategy Statement

January 2021

Contents

Funding Strategy Statement

Appendices

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 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 Appendix E)			Ongoing participation basis, but may move to "gilts basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary Contribution rate	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No				
Maximum time horizon – Note (c)	17 years	15 years	17 years	17 years	Future working lifetime	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 – Note (e)	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 Note (g)					Review of rates will be carried out in line with the Regulations and as set out in Note (g) Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (h)	Note (i)		Notes (i) & (j)
Cessation of participation: cessation exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation principles applied would be as per Note (k).			Can be ceased subject to terms of admission agreement. Cessation surplus or debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (k).		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.
Tax raising body (excl. Town & Parish Councils)	+1% of pay	-1% of pay

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

Note (c) (Maximum time horizon)

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

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

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

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

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion. 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 it exercise 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 siginificantly, 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.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

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

C4 Regulatory risks

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

C5 Governance risks

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

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

Appendix D – The calculation of Employer contributions

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

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

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

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of 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.

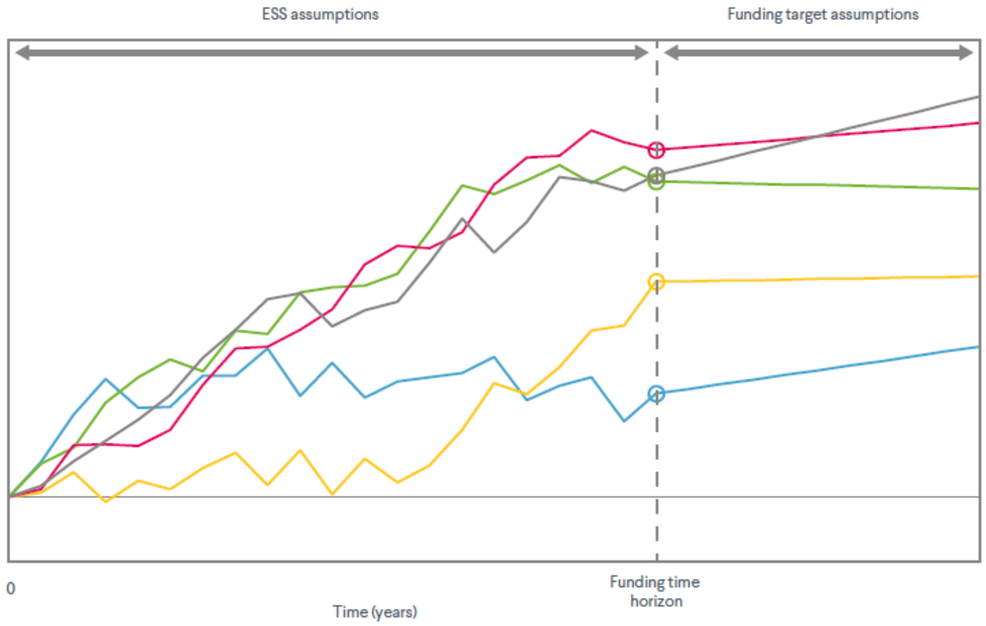
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not affect the actual benefits payable by the Fund in future.

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

E3 What assumptions are used in the funding target?

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

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

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

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

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants*
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

*the Administering Authroity 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

Funding basis The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the **level of future investment returns**, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

Administering Authority The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.3).

Covenant The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Designating Employer Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

Employer An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary contribution rate** at each **valuation**.

Gilt A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund but are also used in funding as an objective measure of a risk-free rate of return.

Guarantee / guarantor A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority but can sometimes be another type of employer such as an Academy.

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

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 value of an exit credit payable to the exiting employer, the Fund will have regard to the 'proportion of the excess of assets which has arisen because of the value of the employer's contributions', as required under Regulation 64 (2ZC) (b). This may be used to determine how much of the excess of assets (i.e. the surplus) at the cessation date is payable as an exit credit.

Where a full history* of historic employer contribution data is available, the Fund will assess this factor using the following approach:

I. The Fund will instruct the actuary to calculate the total value of contributions paid by the exiting employer over the course of its participation in the Fund at the date of cessation, including any investment return achieved on these contributions over this period ('the Total Contribution Value'). For the avoidance of doubt, the return achieved will broadly reflect the timing of each contribution made.

II. The Total Contribution Value will be expressed as a proportion of the exiting employer's total asset value at the date of cessation ('the Proportion'). The Proportion represents the approximate share of the total assets that can be fairly and reasonably attributable to the value of the contributions paid by the employer during its participation.

III. The Proportion will then be applied to the exiting employer's excess of assets over liabilities at the cessation date (i.e. the cessation surplus) to determine the share of the surplus that relates to the value of contributions paid by the employer over its participation.

In the absence of any statutory guidance on how this factor is calculated, the Fund believes that the above calculation approach is an appropriate interpretation that is fair to both the ceding employer and the exiting employer, while remaining practical to administer. As is the case with any cessation valuation, the calculation is affected by market conditions and the specific timing of investment returns over the period of the employer's participation. In general terms, the Proportion will be smaller where returns in the earlier years of the exiting employer's participation are higher on average than those in the later years. Conversely, the Proportion will be larger where returns are higher on average towards the end of the exiting employer's participation. The approach therefore does not unduly favour either the letting authority or the exiting employer – the outcome relies only on market conditions and the timing of contributions paid by the exiting employer throughout its participation.

*Where historic contribution data over the full period of participation of the exiting employer is not available, the Fund will follow the above approach where possible with some approximations applied where necessary.

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.

Appendix B

Fund Policy on Employer Risk

Introduction

Employers have a duty to make payments of employee and employer contributions to the Pension Fund.

This income is invested by the Pension Fund and used to pay retired members pension benefits.

One identified Fund risk; are employers being unable to make payment of their employer contributions. By managing employer risk, this increases the likelihood employers will make payment of all monies owed. It also puts the Fund in a better position to request additional security in the event an employer becomes bankrupt.

Valuation

Every three years at the triennial valuation each scheme employer is assessed, and employer contribution rates set for the proceeding three years. The rates are made up of primary and secondary contributions, the primary rate is paying for future accruals. The secondary rate is paying for any deficit and has a time horizon included for paying off the debt.

As part of the triennial valuation the Fund assesses the risk of the employers and this is incorporated into the assessment of the deficit repayment period.

The Fund's approach to managing employer risk, is detailed within this policy document.

The Fund will always try to avoid the situation where an employer cannot meet its Fund financial requirements. If an employer becomes bankrupt and there is no guarantor or security that the Fund can refer, the employer's deficit then becomes spread across the other Fund employers. Fund Officers will always try to avoid this scenario occurring.

Employer Groups

The Fund had six employer groups at the 2019 valuation. These are detailed in the Fund's Funding Strategy Statement (FSS) on page 10. Appendix A.

- Local Authorities including Police and Fire. These are known as stabilised employers – these are tax raising bodies and tend to be the larger fund employers.
- Colleges and Universities
- Academies
- Resolution Bodies (sometimes referred to as Designating employers). These are bodies that must pass a “resolution” to allow their staff to join the LGPS – these are Town and Parish Councils.
- Transferee Admission Bodies. These are usually private contractors that are providing a contracted service following an outsourcing of work from one of the Fund’s employers. The transferring employer acts as guarantor.
- Community Admission Bodies. These tend to be employers that have joined the Fund historically without a guarantor.

Risk scoring

For future valuations Officers will consider the employers that pose the highest risk to the Fund. These are likely to be the largest employers that do not have tax raising powers. These tend to be employers in the Education Sector.

The risks will be assessed in two steps;

1. Risks associated with the type of organisation
2. Risks relating to the specific organisation

For employers that fall into a group that Officers deem a greater risk to the Fund, the more specific risk review of the organisation will take place.

This recognises some risk are inherent to the employer type and others on how the employer behaves.

The types of items considered include;

1. Is the employer a tax raising body
2. Does the employer have an external guarantor (e.g. Academies are under written by the DfE guarantee)
3. Does the employer have a guarantor (e.g. Transferee Admission Bodies have the transferring employer as the guarantor)
4. Does the employer have additional security in place in terms of a bond or Company guarantee
5. Review the employer’s previous years and forecast balance sheets
6. Review the employer’s previous years and forecast profit and lost
7. Review the employer’s capital business plan

8. Review other financial information available e.g. independent assessments of financial health, credit rating agency, Education and Skills Funding Agency
9. Review the employer's external auditor report
10. Consider other information the employer is able to provide to assist Officers understand their risk

The above is not an exhaustive list and may change.

From the replies received, Officers will group employers into either a High, Medium or Lower risk scoring group.

The groups will then be assessed by the Actuary and Officers to establish their individual funding target, deficit recovery period and if greater security maybe needed.

The information employers will be asked to return is attached as Appendix B

Employers will be aware that it is in their interest for them to provide the information requested as this will assist Officers and allow them to make a more informed judgement of an employer's risk. Without the information provided it its likely Officers will take a more prudent view and assess an employer as a greater risk.

Fund Officers will have the ultimate decision on the group an employer falls.

<u>Admission Agreements – Transferee Admission Body (TAB)</u>

When a Fund employer outsources staff, the contractor that takes on the work must ensure they retain the pension arrangements for this staff. This is almost always via a legal Admission Agreement between the Fund, the outsourcing employer and the contractor.

Once the admission agreement is signed by all parties, this permits the contractor to become an employer within the Leicestershire Fund, thereby allowing the staff that transferred over to remain in the Leicestershire Fund.

The contractor is then classed as a Transferee Admission Body (TAB) in the Leicestershire Fund.

Once the agreement is signed by all parties the TAB must follow all the requirements of the Fund as detailed in the agreement, including payment of employee and employer contributions. The first payment must be made within 2 months of completion of the admission agreement, and then every month thereafter.

In 2019 the Fund implemented pass-through admissions, and these are the Fund's preferred admissions. In these cases, the risk is mitigated as any surplus or deficit moves back to the outsourcing employer at contract end. It also negates the need for a full bond.

Guarantors, Bonds or Other Security

Wherever possible Officers will require additional security from employers.

If an employer falls into financial difficulty the Fund is then able to call upon the additional security first. This acts as security to the Fund, thereby reducing any deficit being spread across other Fund employers.

Guarantors

If a Fund employer outsources work to an external contractor (a Transferee Admission Body) the outsourcing employer automatically acts as guarantor. Therefore, if the Transferee Admission Body is unable to meet its Fund financial commitments the Fund will request this from the outsourcing employer.

All outsourcing contracts of this nature are legally bound by the Fund's Admission Agreement.

Bonds

Under pass-through admissions, during the outsourcing of work to an external contractor Officers assess the "capital cost value". This is the amount of money the Transferee Admission Body would have to pay the Fund if all the staff aged 55 or over were made redundant and thereby entitled to immediate payment of pension benefits.

The contractor sets up a bond with a bond company of their choice for the sum of the capital cost value. Bond Companies usually do not allow a bond period for more than a three-year. If the contractor becomes bankrupt the Fund can call upon the bond for the value secured.

The Fund has a legally binding Bond document that this used in these cases.

Officers review the value of the capital cost at regular intervals. The period of review is usually determined by the contract length (or contract extensions), the ages of the staff employed at the contractor, and when staff reach age 55. However, Officers will review all bonds at least every three years as part of the valuation cycle.

If Officers determine that a change to the Bond value is required, they will liaise with the TAB directly at that time.

For pre-passthrough admissions (pre 2019), the Fund usually requires a full bond which is greater than the capital cost bond. This is because the risk associated with these cases can be higher.

Officers have purchased a system for tracking, recording and monitoring bond values and the dates these expire, cessation termination repayments and various other risk areas. The system will also include the risk score for each employer.

Other Securities

Whilst the Fund prefers bonds as the standard route for security, it will consider other forms of security that an employer can offer. These may include Parent Company Guarantees or security over assets e.g. property or land. In this case a legally binding document will be provided by the Fund.

Community Admission Bodies (CABs)

The Fund has a small number of CABs. These tend to be the older historic admissions without guarantors.

The Pension Manager assesses the risk of these employers on a “case by case” basis and actively works with these employers to manage and reduce their risk wherever possible.

New Employer Flexibilities – September 2020

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.

These Regulations effectively fall into three areas, **review of employer contributions**, **spreading exit payments** and **deferred debt agreements**.

The Fund’s proposed policy on how it will deal with these three changes are detailed in the Fund’s Funding Strategy Statement (FSS). As at February 2021, this was being consulted on with the Fund’s employers. The Final FSS is due to be approved by Committee in June 2021.

Details can be found on pages 14, 18 and 19 of the FSS.

Ill Health Insurance

Many of the smaller Fund employers have the ill health insurance policy in place and the Fund requires all new Transferee Admission Bodies to do so.

Employers with ill health insurance pay 1% less employer contributions, as set out in the Fund's triennial valuation report. Instead the 1% is paid by the employer to Legal and General as an insurance against ill health retirement costs for the most severe of cases.

If a severe ill health case occurs, the employer can then offset the Fund's ill health cost against the insurance company.

One single ill health retirement can generate costs to an employer than can cause them serious financial hardship. Costs of over £500,000 for a single case have been recorded in the Leicestershire scheme.

Larger employers may choose not to pay the ill health insurance, instead paying the cost themselves or deferring the cost and having this incorporated into the calculation of future employer contribution rates at the next valuation.

<u>Investment Portfolios per employer group</u>

The Fund does not have specific investment portfolios for the different groups of Fund employers.

Appendix A – Funding Strategy Statement

Appendix B – Fund Employer Risk Template

Pensions Manager - May 2021

Data request

The Scheme Advisory Board and Pensions Regulator require Funds to reduce employer risk wherever possible. Therefore, the Fund has chosen to consider employer risk and the information you provide will assist Fund Officers in determining this. Failure to provide information may require Fund Officers to make assumptions. Please can you consider forwarding information as requested below.
Please note all correspondence will be treated in the strictest of confidence.
In addition please email the last 2 years of financial statements and any relevant information we may use to develop our understanding of the stability of the employer
We appreciate you are under no obligation to provide us with an early view of your accounts whilst they are not finalised, however we will appreciate it if you can do so. These accounts will not be held on the general network and files will be password protected.

Past 2 yrs and Forecast 2 yr Balance Sheet info

	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	Notes
BS - Tangible Fixed assets £m					
BS - Cash and cash equivalents £m					
BS - Total current assets £m					
BS - Net current assets £m					
BS - Liabilities falling due > 1 yr £m					

Past 2 yrs and Forecast 2 yr P&L info

	dd/mm/yy	dd/mm/yy	dd/mm/yy	dd/mm/yy	Notes
P&L - total income £m					
P&L - all staff costs £m					
P&L - total expenditure £m					
P&L - operating profit/loss £m					state exceptionals or adjustments here

Business plan - capital	21/22	22/23	23/24	Notes
Total capital spend forecasted by year £m				
How much of this capital is committed £m				
Capital funding sources, clarify in notes				
Is the foreasted capital refected in the forecasted financial statements, enter notes to clarify				

Total forecast cash costs by year for each retirement scheme include new contribution rates in notes - assume continuation of last available rate if unknown	20/21	21/22	22/23	23/24	Notes
LGPS £m					
TPS £m					
USS £m					
Other DB [enter name] £m					
Other DC (aggregate costs) £m					

ESFA data

	18/19	19/20	20/21	21/22	Notes
ESFA Rating					
Adjusted current ratio					
EBITDA as a % of income - education specific					
Borrowing as a % of income					

Have any other pension schemes been setup during the year to April 2021 or are you in the process of setting up additional new schemes? Provide brief details	
Do any other pension scheme administrator have a bond or similar gaurentee in place to protect the scheme administrator? Provide brief details.	
Latest funding levels for each (non LGPS) DB scheme including latest actuarial valuation date, discount rate employed and agreed employer funding rate	
Outsourcing of staff, how many staff in the year have been outsourced that are members of the LGPS? Provide summary details of schemes eg 15 moved from LGPS to a DC scheme average employer rate x% with declining ate to y% after x years	
Are there any factors that Pension Fund Officers should be aware of to help them determine your employer risk to the Fund	
Please provide documents to support your reply, e.g independent assessments of financial health, credit ratings, Education and Skills Funding Agency assessment	

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LOCAL PENSION BOARD - 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

GOOD GOVERNANCE PHASE 3 – PROGRESS REPORT

Purpose of the Report

1. The purpose of the report is to advise the Board of the proposed changes to Pension Fund governance as described in the latest 'Good Governance' report and the progress made in implementing these changes.

Background

2. Following on from the production of the Good Governance report to the national Scheme Advisory Board (SAB) on 8th July 2019, which was taken to the Board on 16th September 2019, the SAB agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the Good Governance project.

3. The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

4. The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

5. A report, 'Good Governance in the LGPS Phase 2' was prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework. This was presented to the Board on 10th August 2020.

Current Position

6. A further, final report, 'Good Governance: Phase 3 report to SAB' has now been produced. The current position regarding the action taken to date by

officers in respect of the proposals in the report can be found in Appendix One and updates the position that was presented to the Board on 10th August 2020. Once actions are completed in respect of the requirements, regular reviews will be scheduled in as appropriate.

7. The Phase 3 report largely expands on Phase 2, providing more detail around the initial proposals, though the proposal in section E5 that suggested consideration should be given to the utilisation of pay and recruitment policies relevant to the needs of the pension function, has been removed.

8. Section E3 now includes a proposed list of Key Performance Indicators (KPIs) covering both administration and governance areas. The current position regarding the action taken to date by officers in respect of the proposals can be found in Appendix Two.

9. SAB has now approved all the proposals in the report and made recommendations to MHCLG to take these forward. They have also produced an action plan, that lists the next steps in respect of the implementation of each of the governance areas. This is provided in Appendix Three, but in essence they are:

- SAB to meet with MHCLG to discuss the recommendations;
- MHCLG to produce the statutory guidance, establish the new governance framework and implement the proposals;
- Relevant bodies such as CIPFA to begin work on the aspects of guidance relevant to them.

10. Once the statutory guidance is published, it is likely that the expectations will increase from current standards and there will be areas, currently fully compliant where further strengthening will be required.

Recommendation

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

Equality and Human Rights Implications

None specific

Appendices

Appendix One – Current position regarding implementation of proposals

Appendix Two – Current position regarding implementation of proposed KPIs

Appendix Three – Good Governance Phase Three Report

Appendix Four – Scheme Advisory Board Action Plan

Background Papers

Local Pension Board 16 September 2019 – Pension Fund Administration – Current Developments

http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=5810&Ver=4

Local Pension Board 10 August 2020 Good Governance Phase 2 – Progress Report

http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=6203&Ver=4

Local Pension Committee 26 February 2021 – Pension Fund Budget and Business Plan 2021/22

http://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6523&Ver=4

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

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Good Governance Phase 2

Appendix 1

	Area of Governance	June 2020 Position	May 2021 Position
General			
A1	MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the new proposals below. ("the Guidance")	Awaiting production of the guidance.	Final report states: "The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory guidance which will supercede current guidance. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision that allows the secretary of state to issue guidance on the administration and management of the scheme." Action Completed.
A2	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer")	The LGPS Senior Officer for Leicestershire is Chris Tambini	Action Completed.
A3	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.	Awaiting production of the guidance.	A compliance statement is produced as part of the annual report and the latest was included in the 2020 report. The 2021 compliance statement will be strengthened as a result of the latest guidance.
Conflicts of Interest			
B1	Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.	Ongoing, currently being looked at as part of the Pensions Committee's Terms of Reference Review.	A policy document has been prepared and is due to be brought to this meeting for comment then taken to the Local Pension Committee in June.
B2	**Original Text:** "The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB." **This has now been updated to:** "The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees."	Awaiting production of the guidance.	Awaiting production of the statutory guidance.
Representation			
C1	Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on it's committees, explaining it's approach to representation and voting rights for each party.	The Board currently has representatives from County, City and Leics Constabulary. Every scheme member has the opportunity to be a member, so no one is excluded. To comply with Governance, this point may need to be stressed within the Board's Terms of Reference.	Wording to be strengthened within the 2020/21 Governance Compliance Statement and as part of the next terms of reference review.
Knowledge and Understanding			
D1	Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	A training policy for board and committee members was approved by the Pension Committee on 8th November 2019 and the Local Pension Board on 16th September 2019.	The training records for the board and committee members will be added to the next Governance Compliance Statement which will be included in the 2021 Annual Report.
D2	Introduce a requirement for S151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.	The current policy covers "Officers involved in the management of the fund".	Action completed.
D3	Administering authorities must publish a policy setting out their approach to delivery, assessment and recording of training plans to meet these requirements.	Pension Board training policy (approved September 2019) meets this criteria.	The current policy, which was approved in September 2019 is due to be reviewed and issues around measuring and assessing members knowledge will be given consideration, as it seems likely that requirements will increase over time. Officers continue to work with Board and Committee Members regarding their knowledge and understanding and future training sessions will be organised around agenda items and key areas of importance.
D4	CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers and to consider including LGPS training within their training qualification syllabus.	Awaiting production of the guidance.	Awaiting production of the guidance.
Service Delivery for the LGPS Function			
E1	Each admin auth must document key roles and responsibilities relating to the LGPS fund and publish a roles and responsibilities relating to it's LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business procedures	To be addressed.	An initial draft has been prepared. Currently awaiting statutory guidance to ensure all requirements are covered in this document.
E2	Each admin auth must produce an admin strategy	Admin and Comms strategy already in place and is reviewed every two years	Action completed. Next review due January 2022.
E3	Each admin authority must report the fund's performance against an agreed set of indicators designed to measure standards of service	CIPFA will work with AON to agree a standard set of KPIs to benchmark performance. Awaiting further information on this.	A document covering this has been produced and this is covered separately.

	Area of Governance	June 2020 Position	May 2021 Position
E4	Each admin authority must ensure their committee is included in the business planning process. Both the committtee and senior LGPS officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.	A specific Pensions business plan and a separate Pension Fund budget was approved by the Local Pension Committee on 28th February 2020. Initially this is a one year budget (2020/21) but in time will be developed into a four year budget in line with the Council's Medium Term Financial Strategy.	A three year Pension Fund Budget and Business Plan was approved at the Local Pension Committee meeting that took place on 26th February 2021 (Link in Background Papers section of the Report).
E5	Each admin authority must give proper consideration to the utilisation of pay and recruitment policies , including as appropriate market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.	This practice is already in place.	This has now been removed from the Good Governance requirements.

Compliance and Improvement

F1	Each admin authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.	Awaiting production of the guidance.	To be addressed, once further information has been obtained.
F2	LGA to consider establishing a peer review process for LGPS funds	Awaiting production of the guidance.	To be addressed, once further information has been obtained.

Area	Ref Number	KPI	Notes	LCC Comments April 2021
Governance KPIs				
Breadth of representation	1	Percentage make-up (employer/member) on committee and board and number of LPB representation		This information is recorded and can be provided.
	2	Average attendance level at meetings (percentage) - split between absence and vacancies	1 and 2 may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings	This information is recorded and can be provided.
Training and expertise	3	Hours of relevant training undertaken across panel/board in last year		This information is recorded and can be provided. Need to ensure that training received outside of the Board/Committee framework is taken into account.
	4	Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person.	Currently investigating what can information can be gathered.
Compliance/Risk	5	Number of times risk register reviewed annually - number of times on agenda at committee/board	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality	On the agenda for every Board and Committee meeting.
	6	Number of times carried out business continuity testing and/or cyber security penetration testing	Key focus of TPR	The Pensions Business Continuity plan is reviewed annually. There is also a Cyber Review exercise carried out in conjunction with ICT annually.
Appropriate governance time spent on key areas	7	Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?	Proposing to measure this by examining the Board and Committee agendas over the previous 12 months and measure split between Investments/Governance/Administration
Administration KPIs				
Data Quality	1	Common/conditional score, in line with TPR expectations		The scores can be provided by system supplies as part of a contractual arrangement. The current data improvement plan will be reviewed with intention of targetting specific areas for improvement that would benefit the section most, based on the resources available to address those areas.
	2	Annual Benefit Statement percentage as at 31 August	Include explanation where less than 100%	This is currently monitored and reported on where percentage issued is less than 100%
Service standards/SLAs	3	Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe		The Disclosure timeframe is one month from date on which benefits bacome payable, however our own target is currently to implement pensions within 10 working days of receiving election. If required it would be possible to produce two sets of results.
	4	Does the Fund monitor and report it's own standards?	Y/N	Monthly reports are run to monitor standards and are submitted quarterly to the Director of Corporate Resources.
	5	Percentage of calls to customer helpline answered and resolved at first point of contact		Percentage of calls to customer heplline answered is measurable, whereas calls resolved at first point of contact currently isn't. Further investigation is required on this issue.
Engagement and communication - capabilities and take-up	6	Specify when online services are available to members/employers	Measuring services provided by Fund online, perhaps against an agreed standardised list.	A list of online services available can be produced.
	7	Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	Measuring take up of services	Percentage of members registered for online services can be measured, it also is possible to extract data relating to logging in to those services, split by status.
	8	Number of employer engagement events and/or briefings held in last 12 months and percentage take-up	Percentage take-up could be weighted to size of employer	Consideration needs to be given with regards to this and how to make it meaningful.
Customer satisfaction	9	Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions)	Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys - e.g. "The service was excellent - Strongly Disagree/Disagree/Agree/Stongly Agree"	Figures can be provided based on existing members survey. Employers will need further consideration. Maybe an annual survey issued via a Employer Bulletin?

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Scheme Advisory Board

ANNEX to letter from SAB Chair to Luke Hall MP 11.2.2021

Action Plan (extract from Board report of 8 February 2021)

The action plan consists of formal requests from the SAB to MHCLG and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependant on or regardless of the outcome of those requests.

- Column 1 of the grid below sets out the recommendations listed in the final report from Hymans Robertson.
- **Column 2 shows the actions proposed for MHCLG either by way of regulation or statutory guidance**.
- Column 3 shows any associated work that would need to be undertaken by bodies other than MHCLG or SAB
- Column 4 shows work that would need to be undertaken by SAB dependant on MHCLG guidance/work by other bodies being completed and;
- Column 5 shows actions that SAB can undertake to further improve scheme governance and administration immediately, regardless of the actions of MHCLG and other bodies.

Recommendation	**MHCLG**	**Other bodies**	**SAB Dependant Actions**	**SAB Immediate Actions**
A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).	Publish statutory guidance (SG) to include requirements set out below using either reg 2(3A) powers or a new regulation in section 3			

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund ("the LGPS senior officer").	Set requirement in scheme regulations	CIPFA to refer to the role in their guides	Publish a guide to the named officer role	Letter to CIPFA confirming SAB's recommendation to Minister
A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.	Set requirement in scheme regulations and publish high level statutory guidance		Publish a guide to GCS, including best practice examples	
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.	Set requirement in statutory guidance at **A.1**		Publish a guide to CoI policies, including best practice examples	Survey AAs to identify extent of conflict of interest policies already in existence

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Local Government House, Smith Square, London SW1P 3HZ **T** 020 7187 7344 **E** robert.holloway@local.gov.uk M 07867 192448 www.lgpsboard.org

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	Request that MHCLG clarify Fiduciary Duty in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish guide on statutory and fiduciary duty based on A1 guidance and further legal advice	Seek further legal advice in co-ordination with Administering Authorities and recommend any further action in this area
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.	Set requirement in statutory guidance at **A.1**		Publish a guide to representation based on requirements of SG	Survey AA's for analysis of current representation
D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	Set requirement in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	Investigate existing training in this area and publish results

Scheme Advisory Board Secretariat
Local Government House, Smith Square, London SW1P 3HZ **T** 020 7187 7344 **E** robert.holloway@local.gov.uk M 07867 192448 www.lgpsboard.org

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.	Set requirement in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.	Set requirement in statutory guidance at **A.1**		Publish a guide to training plans	Survey AA's for existing training plans and publish for best practice
D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.		CIPFA to produce appropriate guidance and training		Letter to CIPFA setting out request
E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The	Set requirement in statutory guidance at **A.1**		Publish a Guide to Roles and Responsibilities Matrix	Survey and publish existing delegation arrangements in AA's

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Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
matrix should reflect the host authority's scheme of delegation and constitution, and be consistent with role descriptions and business processes.				
E.2 Each administering authority must publish an administration strategy.	Set requirement in scheme regulations		Publish a guide to administration Strategy	Obtain and publish examples of existing PSAs
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service	Set requirement in scheme regulations or SG	CIPFA to include in AR&A guidance		
E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.	Set requirement in statutory guidance at **A.1**	CIPFA to publish appropriate guidance		Investigate and publish current arrangements for agreeing pensions budget

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Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.	Set requirement in scheme regulations, and include in high level statutory guidance		Establish panel of experts to review biennial governance reviews	Investigate the work of any similar bodies and consider potential structure and membership
F.2 LGA to consider establishing a peer review process for LGPS Funds.		LGA to consider proposal		Letter to LGA setting out request

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Good Governance: Phase 3 Report to SAB

February 2021

Contents

Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a * the proposals addressed further in this report.

Area	Proposal
A. General	***A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	***A.2** Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	***B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2** The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – **now updated
C. Representation	***C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	***D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	***D.2** Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	***D.3** Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	***D.4** CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	**E.1** Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of

	delegation and constitution and be consistent with role descriptions and business processes.
	***E.2** Each administering authority must publish an administration strategy.
	***E.3** Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	***E.4** Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	***F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

Committee a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

Further Discussion on Recommendations

A General

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance[1]. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision[2] that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that he outcome of The Supreme Court's judgment on LGPS boycotts (The Palestinian Case)[3] may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund's strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator's codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority's senior leadership level;

[1] **LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200**
[2] **See Regulation 2(3A)**
[3] **R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent**

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

Representing the fund at a senior level. The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

Capacity. The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

Reporting Lines. As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

Resourcing. The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

An ability to build strong relationships and influence. The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

Strong technical skills. There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

Strategic thinking. It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

Operational effectiveness. The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

Strong ethical standards. The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund’s members and employers. They demonstrate and positively promote the seven principles of public life.

Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations[4] require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

[4] **See Regulation 55 "Administering Authorities: Governance Compliance Statement"**

B Conflicts of Interest

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct[5]. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

[5] Similar codes apply for non-local authority administering authorities.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.

C Representation

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB''s view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

D Skills and training

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

Treasury Guidance[6] requires that all government departments should have professional finance directors and that "It is good practice for all other public sector organisations to do the same, and to operate to the same standards".

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual's ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

[6] See Managing Public Money (July 2013), Annex 4.1

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

E Service delivery for the LGPS Function

E.2 Each administering authority must publish an administration strategy.

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6th January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
  - Minimum standards of performance;
  - Assessment of inefficiency costs;
  - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

Governance KPIs

Subject Area	*KPI*	*Notes*
Breadth of representation	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	*1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings*
Training and expertise	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
Compliance/ Risk	*5.* Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	*Key focus of TPR*
Appropriate governance time spent on key areas	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

Administration KPIs

		Notes
Data quality	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	*Include explanation where less than 100%.*
Service standards/SLAs	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	*Y/N*
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
Engagement and communication – capabilities and take-up	6. Specify which online services are available to members/employers	*Measuring services provided by Fund online, perhaps against an agreed standardised list.*
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	*Measuring take up of services*
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	*Percentage take-up could be weighted to size of employer.*
Customer satisfaction	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	*Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. "The service was excellent – Strongly Disagree/ Disagree/Agree/Strongly Agree."*

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

F Compliance and Improvement

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

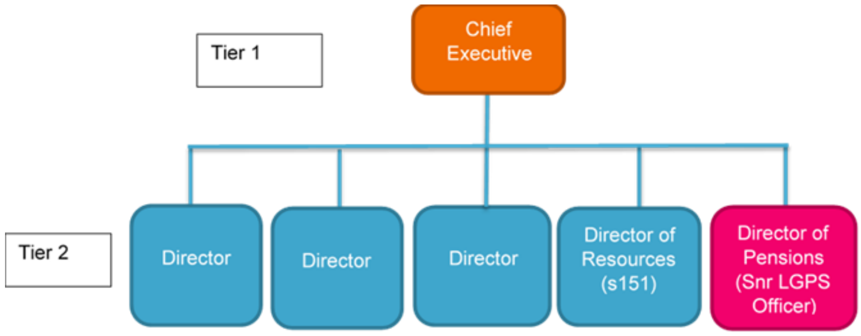
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

Appendix 1 - Senior officer organisational structures

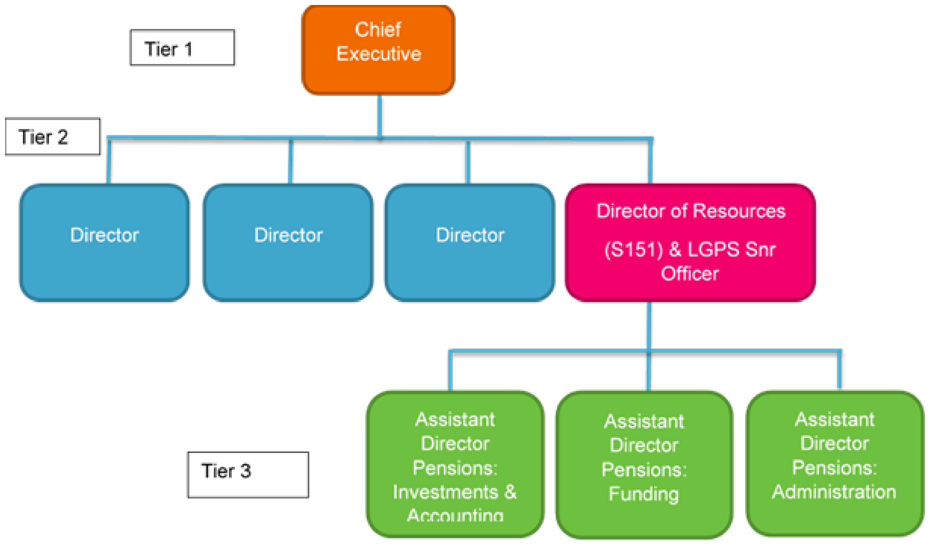
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



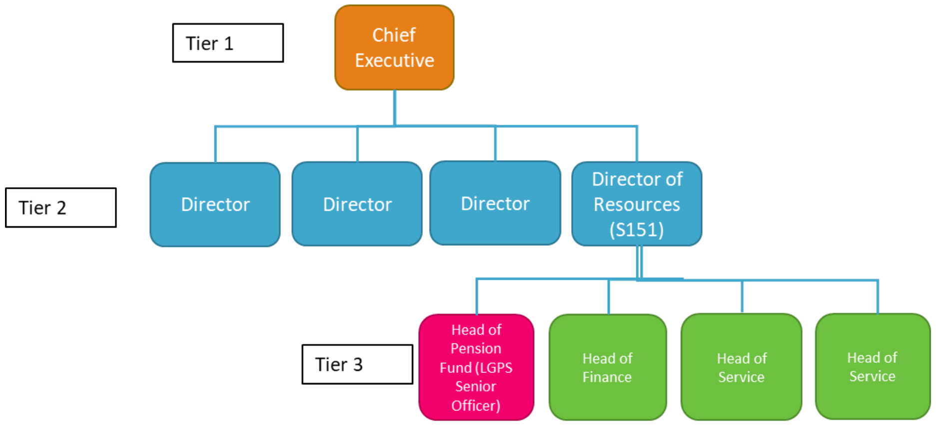
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



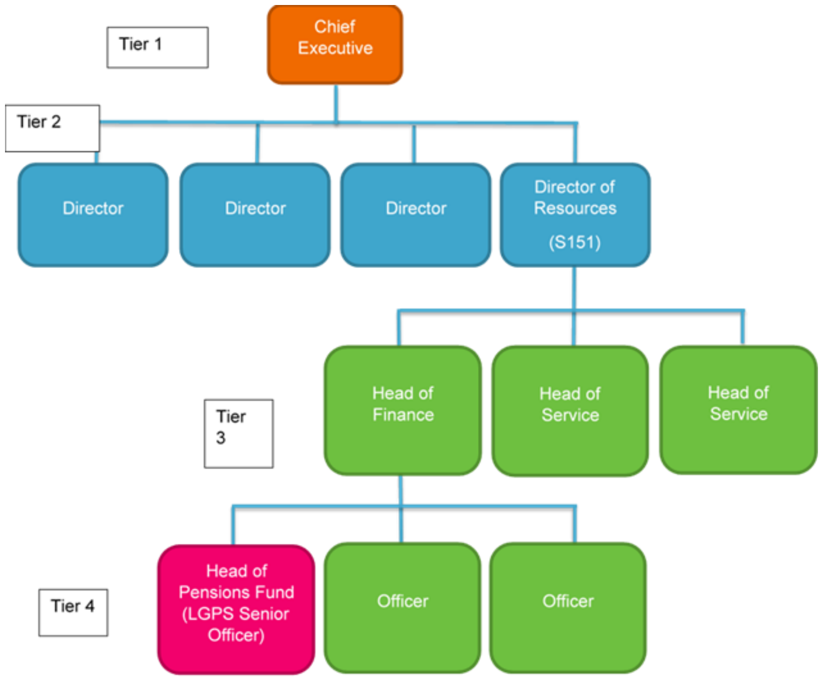
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



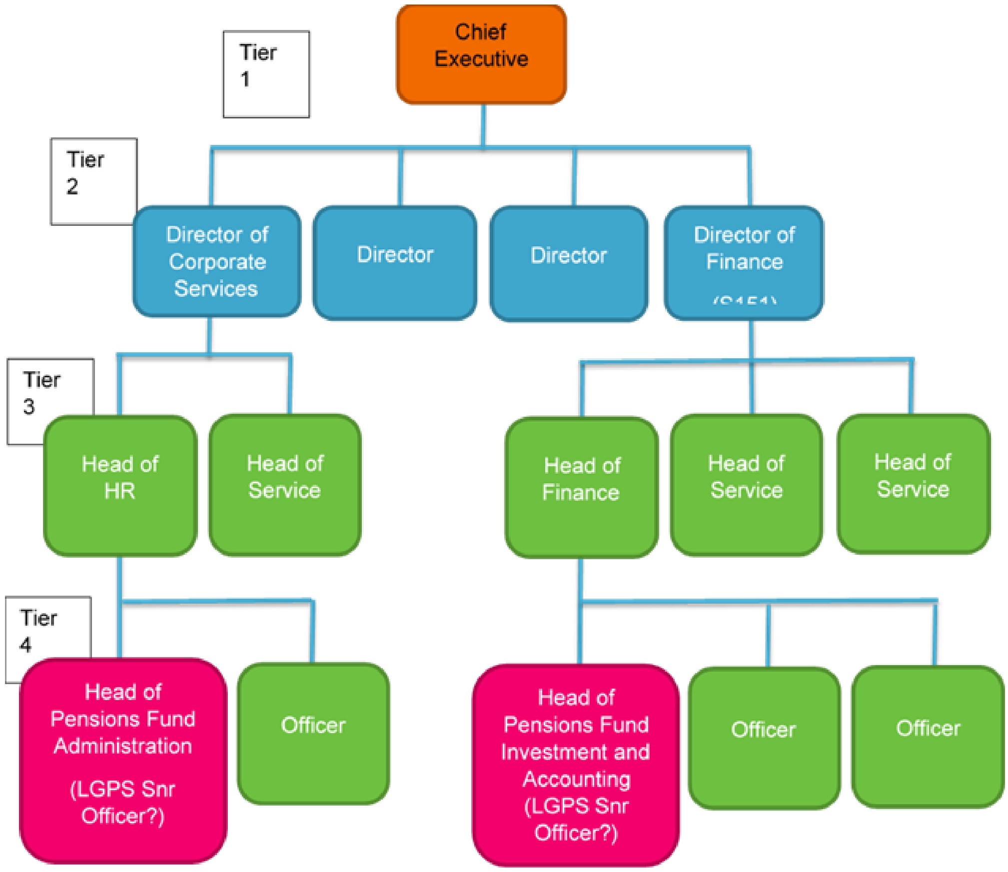
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

(a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

A Conflicts of interest

A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes it approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

C Sufficiency of resources for service planning and delivery

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

C.1 Business planning and budget setting

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

C.2 Service delivery

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;

- the Fund's approach to the use of technology in pension administration.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

D. Representation and engagement

The Fund has published a Policy on representation and engagement.

D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr B (vice-chair)	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
Cllr C	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr D	**Administering Authority**	**N**	**Y**	**Y**	**N**	**50%**
Cllr E	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
F	**Employer representative**	**Y**	**Y**	**N**	**Y**	**75%**
G	**Member representative**	**N**	**Y**	**Y**	**Y**	**75%**
Vacancy		**N**	**N**	**N**	**N**	**0%**
Average attendance (including vacancies) %						**78%**
Average attendance (excluding vacancies) %						**69%**
Proportion of voting members not from the Administering Authority						**2 out of 7 (28%)**
Non-Voting Members						
H	**Member representative**	**Y**	**Y**	**Y**	**N**	**75%**
I	**Member representative**	**Y**	**Y**	**Y**	**Y**	**100%**

D.2 Membership of the Local Pension Board

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
  - 2 elected members of the Council
  - 1 elected member of the District Council
  - 1 member representing all other employers
- 4 scheme member representatives comprising;
  - 1 member appointed by trade unions
  - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

E. Training

E.1 Training Strategy

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		***Subject***				**Total (hours)**
		Governance	***Investment***	***Pensions Administrati***	***Other (specify)***	
Pensions Committee						
Cllr A (chair)		**2**	**5**	**1**	**1**	**9**
Cllr B (vice-chair)		**2**	**4**	**1**	**1**	**8**
Cllr C		**4**	**5**	**2**	**2**	**13**
Cllr D						
Cllr E						
F						
G						
Vacancy						
					Sub-Total	**130**
Pensions Board						
R (chair)		**2**	**5**	**1**	**1**	**9**
S (vice-chair)		**2**	**4**	**1**	**1**	**8**
T		**4**	**5**	**2**	**2**	**13**
U						
V						
W						
X						
					Sub-Total	**100**
Officers						
LGPS Senior Officer		**6**	**8**	**3**	**4**	**9**
X						
Y						
Z						

Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	Y	N	Y	Y	75%
Cllr B (vice-chair)	**Administering Authority**	Y	Y	Y	Y	100%
Cllr C	**Administering Authority**	Y	N	Y	Y	75%
Cllr D	**Administering Authority**	N	Y	Y	N	50%
Cllr E	**Administering Authority**	Y	Y	Y	Y	100%
F	**Employer representative**	Y	Y	N	Y	75%
G	**Member representative**	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	**Member representative**	Y	Y	Y	N	75%
I	**Member representative**	Y	Y	Y	Y	100%

Pensions Committee – Meeting Content (Governance KPI 7)

			Meeting Date				Number of times item considered
			MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
		Meeting duration (hours)	3.0	2.5	4.0	2.5	
Governance							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
Funding							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
Investment							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
Pensions Administration							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

Appendix 4 - Summary of the Independent Governance Review

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS

↓

Biennially, each administering authority to commission an Independent Governance Review (IGR).

↓

IGR reports to senior LGPS officer, pensions committee and pensions board.

↓

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG

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Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD - 24TH MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSIONS AND CYBER RISK

Purpose of the Report

1. To inform the Board of the issues with regards to the impact of cyber risk on the Pensions Section.

Background

2. Pension schemes hold large amounts of personal data and assets which can make them a target for criminals. Officers therefore have a responsibility to take steps to protect those data and assets against cyber risk.

3. Cyber risk can be broadly defined as the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its IT systems. It includes both internal risks (e.g. staff) and external risks (e.g. hacking).

4. Pension scheme managers are accountable for the security of scheme information and need to ensure that sufficient controls are in place to minimise the risk of cyber incident around systems, processes and people. This also includes ensuring that third party suppliers also have sufficient controls in place and that relevant standards and accreditations are maintained and kept up to date.

5. The Pensions Regulator (TPR) considers cyber risk to be an area of high priority for scheme trustees and recommend that it is included on the risk register and is reviewed regularly. They have produced a guide, “Cyber Security Principles for Pension Schemes” which has been appended to this report.

6. In November 2019 the Pension Section contacted Leicestershire County Council’s Information and Technology team initially to discuss cyber risk and this led to a request for a full review.

Actions

7. January 2020: Officers from Pensions met with Leicestershire County Council Technical Security Officer (TSO) and the systems supplier, Aquila Heywood to conduct an Information Security Risk Assessment review. Prior to the meeting AH supplied copies of documents relating to their own cyber risk measures, including

their Business Continuity plan and a summary of their most recent penetration testing exercise, conducted in February 2019.

8. February 2020: The TSO raised a series of questions with AH plus a request to see details of other accreditation certificates. AH responded promptly and provided all requested documentation.

Outcome

9. Due to other IT related issues in response to Covid, the Pensions Risk Assessment was not updated and supplied to the Pension Sectrion until October.

10. The TSO stated that he was happy with the responses and the documentation and confirmed that there was nothing of concern. He recommended:

- Regular checks to ensure that AH relevant accreditations were kept up to date;
- Check that AH's annual penetration testing exercises continue to take place and that they provide us with relevant summaries of the exercises;
- Ensure that access permissions for Pensions staff to Altair are regularly reviewed;
- Business contingency plans are put into place.

11. The next review is due in October 2021. Arrangements have been put in place for these to be done and a breakdown can be found in Appendix B..

Other Information

12. In addition to the above exercise, in February 2021 the Internal Audit section recently conducted their Governance and Risk Audit and concluded that "Personal Data and Assets are adequately protected." They have requested that the findings from the cyber review exercise included in this report are presented to the Board. Officers will also ensure that the Board receive future updates annually.

13. The next cyber review will also include two lower risk products that are currently used. These are a third party reporting tool which extracts data securely from altair, where a third party access agreement is in place in the event that any maintenance is required and does not require the sharing of data with the provider. The other is a secure portal that is used to provide de-sensitised data.

14. The Pensions Section follows LCC's policies with regards to cyber risk. This includes the corporate training programme, which includes an e-learning course covering Data Protection and Information Security. It is currently a requirement that all officers take a refresher every two years. In addition all data breaches are reported to the Information Governance team for advice on next steps.

15. Information Governance also keep records of the data sharing agreement that the section has in place with the Local Government Pension Scheme National Database, which allows funds to share pension data to prevent the duplicate

payment of death grants, and also allows pension funds to participate in the 'Tell Us Once' service operated by the Department for Work and Pensions, which allows family members to report a death to most government organisations with just one notification.

14. To comply with GDPR legislation, a Fair Processing Notice is available on the member website. This states who we share data with and why,

15. As the TPR prioritises cyber risk as an area of high priority, one of the largest LGPS actuarial firms has prepared a cyber risk questionnaire for all Funds to voluntarily complete. Given the importance of this risk area, Officers decided the Leicestershire Fund should participate. This is designed to complement the work already done and to highlight any concerns or areas for improvement. Whilst Officers are happy that what we currently have in place is sufficient, it was felt that this would provide further reassurance. The survey has been completed and feedback is awaited.

Recommendation

16.. It is recommended that the Board notes the contents of this report.

Equality and Human Rights Implications

None specific

Appendix

Appendix A: Summary of Cyber Risk Areas for action
Appendix B: Cyber Security Principles for Trustees

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

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Cyber Risk Issues for Action

Responsibility	Area	Actions
Pensions / I&T	Ensure a cyber risk review is carried out annually	Next review scheduled Oct 2021
Pensions	Ensure that the correct access permissions are in place on altair for staff and are reviewed regularly.	Permissions are currently in place and will be reviewed as part of the Oct 2021 review.
Pensions	Business contingency arrangements need to be in place	These have been included in the Pensions Business Continuity plan. The plan is due for review in Dec 2021.
Aquila Heywood	Annual Penetration Test	Summary of latest exercise from December 2020 has been supplied. Next exercise scheduled Dec 2021 - Jan 2022.
Aquila Heywood	ISO Accreditations	Copies of latest accreditations were supplied to Pensions in March 2021. These are due to expire Dec 2023.

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Guidance for trustees

Cyber security principles for pension schemes

April 2018

The Pensions Regulator

Contents

Introduction

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. As trustees and scheme managers, you need to take steps to protect your members and assets accordingly, which includes protecting them against the 'cyber risk'. This is an issue which all trustees and scheme managers, regardless of the size or structure of their scheme should be alert to.

The cyber risk can be broadly defined as the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its information technology systems and processes. It includes risks to information (data security) as well as assets, and both internal risks (eg from staff) and external risks (eg hacking).

You should take steps to build your cyber resilience – your ability to assess and minimise the risk of a cyber incident occurring, but also to recover when an incident takes place. You should work with all relevant parties (including in-house functions, third party service providers and employers) to define your approach to managing this risk. This guide sets out good practice for pension schemes, which can be adopted proportionately to the profile of your scheme. A glossary of key terms is included at the end of this guide.

Did you know?

Internal controls are systems, arrangements and procedures for administering and managing the scheme, systems and arrangements for monitoring the administration and management of the scheme and ensuring the safe custody and security of scheme assets.

Trustees and scheme managers are required by law to establish and operate adequate internal controls to ensure their scheme is operated in accordance with scheme rules and the law. The regulator may intervene where trustees and scheme managers fail in their duties to operate adequate internal controls.

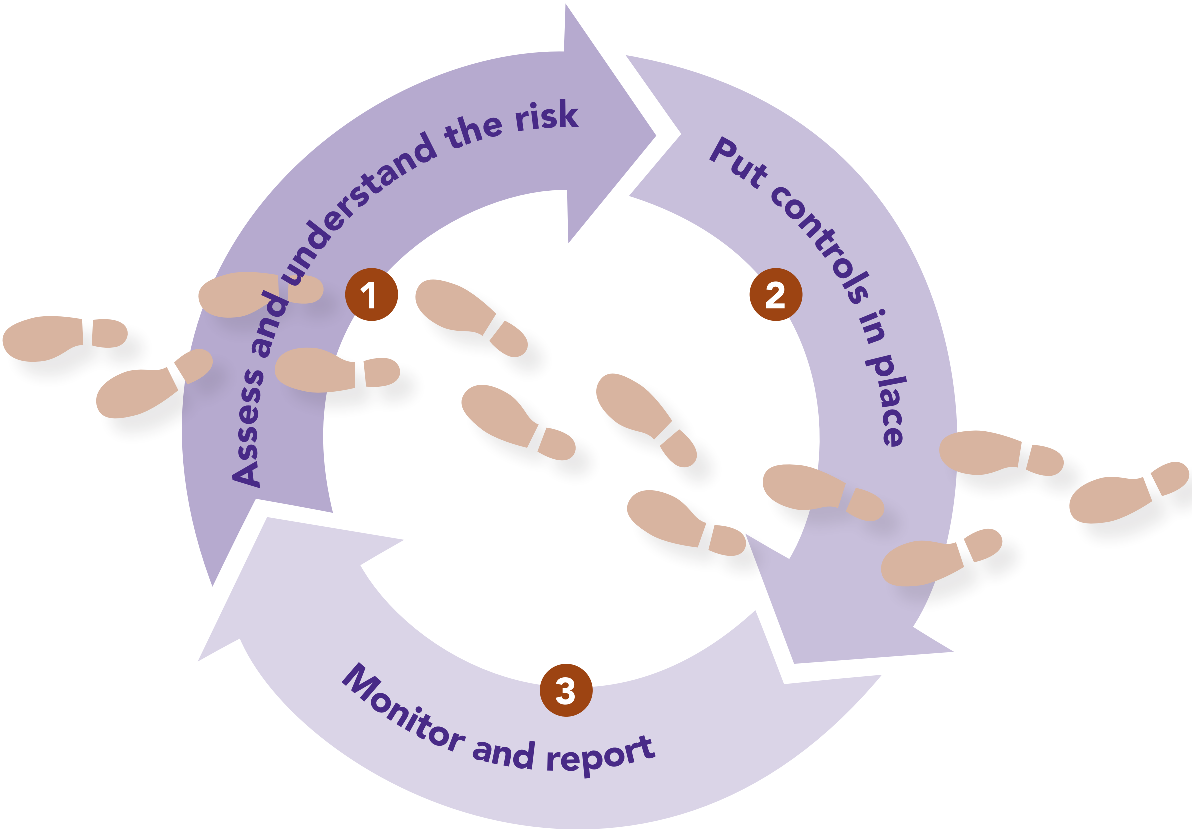
A key part of internal controls is having in place processes to identify, evaluate and manage risks. Building cyber resilience is simply one example of operating adequate internal controls.

Summary

- Trustees and scheme managers are accountable for the security of scheme information and assets
- Roles and responsibilities should be clearly defined, assigned and understood
- You should have access to the required skills and expertise to understand and manage the cyber risk in your scheme
- You should ensure sufficient understanding of the cyber risk: your scheme's key functions, systems and assets, its 'cyber footprint', vulnerabilities and impact
- The cyber risk should be on your risk register and regularly reviewed
- You should ensure sufficient controls are in place to minimise the risk of cyber incident, around systems, processes and people
- You should assure yourselves that all third party suppliers have put sufficient controls in place. Certain standards and accreditations can help you and your suppliers demonstrate cyber resilience.
- There should be an incident response plan in place to deal with incidents and enable the scheme to swiftly and safely resume operations. You should ensure you understand your third party suppliers' incident response processes.
- You should be clear on how and when incidents would be reported to you and others, including regulators
- The cyber risk is complex and evolving, and requires a dynamic response. Your controls, processes and response plan should be regularly tested and reviewed. You should be regularly updated on cyber risks, incidents and controls, and seek appropriate information and guidance on threats.

Cyber risk assessment cycle

Are roles and responsibilities clearly defined, assigned and understood?



1

Assess and understand the risk

- Do you understand the cyber risk facing your scheme:
  - your key functions, systems and assets
  - your cyber footprint, vulnerabilities and impacts?
- Is the cyber risk on your risk register and is it regularly reviewed?
- Do you have access to the right skills and expertise to understand and manage the risk?

2

Put controls in place

- Are sufficient controls in place to minimise the risk of a cyber incident occurring:
  - IT security controls
  - processes
  - people?
- Have you assured yourselves of your third party providers' controls?
- What standards or accreditations help you or your suppliers demonstrate cyber readiness?
- Do you have an response plan in place to deal with any incidents which occur and help you swiftly and safely resume operations? Do your suppliers?
- Are you compliant with data protection legislation (including readiness for the General Data Protection Regulation)?

3

Monitor and report

- Are your controls, processes and response plans regularly tested and reviewed?
- Are you clear on how and when incidents would be reported to you and others including regulators?
- Are you kept regularly updated on cyber risks, incidents and controls?
- Are you keeping up to date with information and guidance on threats?

Governance

1. You are accountable for the security of scheme information and assets, even where you delegate or outsource day-to-day functions of your scheme. You should be clear on your accountabilities, and the roles and responsibilities in respect of cyber resilience (including those of other parties such as third party providers and employers) should be clearly defined and documented. This will ensure everyone understands their role and support effective communication between relevant parties.

2. You should receive regular training and have access to the required skills and expertise to understand and manage the cyber risk.

3. You should ensure that you have sufficient understanding of the cyber risk:

   a. Understand your scheme's key functions, systems and assets (including data assets), their value to a criminal and their vulnerability to a cyber incident

   b. Understand the potential impact of a cyber incident on your scheme and, where appropriate, the sponsoring employer – operational, reputational, financial

   c. Understand the likelihood of different types of breaches occurring in your scheme, including accidental, staff-related, hacking, malware, ransomware, phishing attempts, and co-ordinated DDOS (distributed denial of service) attacks

   d. Understand the 'cyber footprint' of your scheme, ie the extent of the digital presence of all the parties involved in your scheme, and the risk posed by these parties. These can be both internal and external and include the sponsoring or participating employers, administrator, other advisers (auditor, actuaries, investment manager or consultant, lawyers), members (especially if offering online access) as well as the trustees or scheme managers themselves.

What about you?

Trustees and scheme managers themselves receive and send large amounts of potentially sensitive scheme information. You should ensure you have the right controls around your own work, eg clear policies on what can and can't be sent to personal email addresses or accessed on tablets and mobile phones.

4. The cyber risk should be included on your risk register and reviewed regularly (at least annually) and where there are substantial changes to scheme operations (eg a new IT system is put in place, or there is a change of administrator).
5. You should ensure sufficient and proportionate controls are put in place to minimise the risk of a cyber incident occurring, and reduce the impact of any that occur (set out below). You should work with all relevant parties (eg in-house functions, third party service providers and employers) to define these controls.
6. You should understand what, if anything, your internal or external auditors are looking at for you, and what is and isn't covered by any insurance you may have.
7. In some cases you may want or need to have the effectiveness of your cyber risk management independently assessed (eg by an auditor) or seek specialised accreditation, such as Cyber Essentials or ISO 27001.
8. Critically, you should assure yourselves that all third party suppliers have put sufficient controls in place to protect your member data and scheme assets:
    a. You should require suppliers to have, or adhere to, cyber security standards or good practice guides and monitor their performance. You may wish to look for information security certificates or other accreditation. You may also ask them to provide copies of relevant policies or reports (eg penetration testing reports).
    b. Cyber security should be an active consideration in the selection of a supplier and suitable provisions should be included in contracts.
9. All organisations will experience security incidents at some point, even those with the most rigorous controls. As such you should ensure an incident response plan is put in place (see below) to minimise the impact of a cyber incident.

Controls

10. IT infrastructure and security should be sufficient for the work undertaken. There should be multiple layers of security put around systems in line with the Information Commissioner's Office's (ICO) guidance on IT security (**https://ico.org.uk/media/for-organisations/documents/1575/it_security_practical_guide.pdf**). Where necessary you should seek expert advice on IT security.

11. Physical and virtual access to systems and data should be controlled. Staff should be suitably vetted and have just the right level of access. Access should be regularly reviewed, and closed down for leavers or where no longer relevant to a role.

12. Critical systems and data should be regularly backed up. This should include, if appropriate, one or more offline back-ups, to stop these from being affected by a cyber incident. Processes to restore backed-up data should be tested.

13. There should be a range of policies and processes in place around:

    a. acceptable use of devices (including removable and personal devices), email and internet (including social media)

    b. use of passwords and other authentication

    c. home and mobile working

    d. data access, protection (including encryption), use and transmission, in line with data protection legislation and guidance.

14. All staff, and trustees, should receive training appropriate to their role at an appropriate frequency. This should include awareness of cyber risks and how to report incidents.

15. Good monitoring is essential in order to effectively respond to incidents. Systems and networks should be monitored and logs analysed for unusual activity or unauthorised access or connections which may indicate an issue.

Incident response

16. You should have systems and processes in place to ensure the safe and swift resumption of operations. This should include an incident response plan which sets out:

    a. roles and responsibilities of the incident response team. You should ensure that your scheme has access to sufficient capability to investigate a cyber incident

    b. critical functions (eg payments of benefits) and processes, and what assurances need to be in place before these come on board

    c. in-crisis communications including how and when reporting will be made to trustees

    d. the process, thresholds and time limits for notifying other parties including the ICO, The Pensions Regulator (TPR) or the Financial Conduct Authority (FCA) as appropriate, law enforcement (in cases of fraud), third parties, and if necessary, scheme members

17. The plan should cover a range of scenarios, based on your scheme's assessment of key functions and assets, and the likelihood of different types of incident.

18. You should ensure that you understand your third party suppliers' incident processes, including how and when you would be informed of a cyber incident at the supplier.

19. Incidents should be documented and major incidents should be followed by a post-incident review. Plans should be updated in light of lessons learnt.

Final word – Dealing with an evolving risk

20. The cyber risk is complex and evolving and requires a dynamic response:

    a. controls, processes and response plans should be regularly tested and reviewed

    b. you should be regularly updated on cyber risks, incidents and controls

    c. you and other parties should seek appropriate information and guidance on cyber security threats (such as that provided by the National Cyber Security Centre), to enhance your ability to respond to, and recover from, cyber incidents. Sharing information and experiences with trusted stakeholders and peers can also be a valuable source of intelligence.

Additional links

National Cyber Security Centre

- Guidance:
  www.ncsc.gov.uk/guidance
- Threat advice:
  www.ncsc.gov.uk/threats
- Cyber essentials:
  www.cyberessentials.ncsc.gov.uk
- 10 steps to cyber security:
  www.ncsc.gov.uk/guidance/10-steps-cyber-security

Information Commissioner's Office

- Guidance on breach management:
  https://ico.org.uk/media/for-organisations/documents/1562/guidance_on_data_security_breach_management.pdf
- Guidance on IT security:
  https://ico.org.uk/media/for-organisations/documents/1575/it_security_practical_guide.pdf

Glossary

Cyber risk

Risk of loss, disruption or damage to a scheme or its members as a result of the failure of IT systems and processes

Cyber resilience

Ability to assess and minimise the risk of a cyber incident occurring and ability to recover when an incident occurs

Cyber footprint

The digital presence of all the parties involved in the pension scheme, and relevant outsourcers and service providers (eg Cloud service providers), which creates vulnerabilities for your scheme

Cyber incident

A breach, whether accidental or malicious, of the security rules for a system, service, process or policy

Incident response plan

A documented plan to swiftly respond to a cyber incident and enable service to resume safely and as quickly as possible.

For a full glossary of cyber-related terms, please refer to the National Cyber Security Centre guide: **www.ncsc.gov.uk/glossary**

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Cyber security principles for pension schemes
Guidance for trustees

The Pensions Regulator

LOCAL PENSION BOARD - 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND CONTINUOUS IMPROVEMENTS REPORT

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 Continued Improvements and Systems team has been created to assess and improve existing processes, maximising the use of technology, whilst exploring other areas including tenders, new legislation, governance and data quality as set out in the February 2021 report to the Board.

Continuous Improvements

3. A summary of the Leicestershire County Council Pension Fund's (the Fund) current position in regards to its key areas are attached within Appendix A, further detail on progress made can be found below:-

Member Self Service (MSS)

4. The Fund provides a Member Self Service facility for scheme members on its website (https:/leicsmss.pensiondetails.co.uk/). All scheme members have the opportunity to register for an MSS account which allows them instant access to their pension details. It allows members to see the current value of their pension benefits as well as the ability to transfer documents securely to and from the pensions section. Active and deferred members are able to perform their own pension calculations, whilst pensioner members are able to download and print off payslips and P60s. A demonstration of the system was most recently provided to the Board following the meeting on 8th February 2021. A key aim for the Fund is to encourage scheme members to sign up for the service.

5. A very constructive meeting was held between officers from Pensions and Leicestershire Police in April, during which several areas were identified as ways of increasing the visibility of MSS. Specifically:

- The production of an intranet article intended to raise awareness and encourage sign up. This would be scheduled for release immediately prior to the production of Annual Benefit Statements towards the end of August;

- Consideration for inclusion in Leicestershire Police's virtual induction programme, currently being developed;
  Amendments to existing letters sent to staff following a change in contract or upon leaving.

A follow up meeting has been scheduled for mid-June.

6. Statistics regarding the current number of scheme members registered have been provided below. The figures demonstrate clearly that the closer to retirement age a member is, the more likely they are to register for the site. However, the intention is to increase registration across all age groups.

	All Employers	**County**	**City**	**Police**
Active Members	**12,436 (34.2%)**	**2,833 (35.6%)**	**2,754 (33.1%)**	**734 (43.3%)**
0-39	2,271 (20.8%)	548 (23.9%)	444 (19.0%)	155 (25.0%)
40-49	2,670 (29.1%)	621 (29.3%)	536 (26.9%)	136 (38.4%)
50-59	4,914 (43.2%)	1,079 (43.7%)	1,119 (41.1%)	301 (59.5%)
60+	2,581 (52.6%)	585 (54.7%)	655 (51.0%)	142 (66.0%)
Deferred Members	**7,586 (25.0%)**	**2,360 (24.1%)**	**1,714 (22.2%)**	**294 (30.7%)**
0-39	1,080 (14.6%)	260 (13.5%)	218 (11.9%)	71 (18.5%)
40-49	1,766 (20.9%)	499 (19.2%)	406 (18.4%)	76 (30.2%)
50-59	3,700 (31.6%)	1,227 (29.3%)	879 (29.5%)	117 (43.8%)
60+	1,040 (37.4%)	374 (35.5%)	211 (30.3%)	30 (52.6%)
Pensioner Members	**10,753 (39.4%)**	**3,759 (36.0%)**	**2,669 (38.7%)**	**389 (48.6%)**
Dependant Members	**564 (20%)**	**204 (20.1%)**	**152 (20.9%)**	**18 (23.1%)**

Table 1: Member Self Service Statistics as at 21st April 2021
Figures show members who have partially or completely registered for MSS

7. A key performance indicator relating to new registrations on MSS has been introduced with a monthly target of 650 but also an annual target of 7,800 to take into account monthly fluctuations. This is part of the Fund's quarterly Administration Report to the Board.

8. In addition, several minor changes have been made to the site, with the intention of increasing visibility of the information held on the website.

9. More retirement option forms have also been prepared, to increase the number of registered members who will be able to receive their correspondence through the site.

10. Finally, work has begun on a suite of ‘Quick Start’ guides to assist users in getting the most from the website. It is intended that these will cover registering on the site, using the benefits modeller and completing the death grant nomination screen initially.

Implementation of New Postage, Printing and Scanning Solutions

11. An agreement has been put in place for officers from Leicestershire County Council’s Central Print Team to take over the scanning of incoming post. This arrangement started at the beginning of April and the transition has proved successful so far. It reduces the amount of time Pensions Officers would be required to spend in County Hall, as once incoming post is scanned, the next stage of the process, i.e. to index the documents can be done whilst working remotely. This also helps with Business Continuity arrangements in the event of any future major incident. Discussions are also ongoing regarding arrangements for Central Print to deal with printing.

Employer Risk

12. Officers have arranged to purchase EPIC (Employers Pensions Information Centre), a product developed by South Yorkshire Pension Fund. EPIC is an employer database that is designed to assist officers in the recording of key employer data. It has been designed to enable the recording of key items that are not held in altair including financial data and employer contacts, which will make targeted correspondence easier to produce. It will also provide alerts for annual exercises such as bond reviews, employer policies and the storage of key documentation, e.g. admission agreements. An implementation date has not yet been agreed and is subject to South Yorkshire’s other commitments.

Pension Scams

13. Pension Scams are an area that The Pensions Regulator (TPR) is keen to highlight across the pensions industry. The Fund fully supports this and have signed up for their ‘Pledge to Combat Pension Scams’ which encourages administrators to do what they can to protect scheme members. An extract from the TPR website is provided in Appendix B.

14. Officers therefore have plans to put in place additional web content to raise awareness of scams that relate to pension benefits, along with a downloadable leaflet, “Don’t let a scammer enjoy your retirement”. Links to external sites will also be added, including the Financial Conduct Authority’s ‘ScamSmart’ website. A further link pointing to scam information will also be added to the notes relating to Annual Benefit Statements, one of the most popular areas of the site.

15. In addition, arrangements are in place for all members of the Payments and Taxation team to enrol on a 45 minute e-learning module covering pension scams, which is available on The Pensions Regulator website.

Recommendation

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

Equality and Human Rights Implications

None specific

Appendices

Appendix A – Summary of current position

Appendix B – The Pension Regulator Scams Pledge Information

Background Papers

8 February 2021 - Local Pension Board – Pension Fund Continous Improvements Report – February 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

Area	Affected Team	Aim	Target Completion Date	24th May 2021
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	Work has begun on a suite of'Quick Start' guides to assist users in getting the most of the website. Also a meeting with Leics Constabulary took place in April to discuss options around raising awareness of MSS amongst their scheme members. A monthly target of 650 new registered members per month has also been put in place. Also, creation of a new starter area, scams area and some cosmetic changes that will hopefully make navigation of the site easier.
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	This has started to be rolled out with registered members receiving retirement and estimate letters through the website. Also two categories of retirement option forms are also available on the site, with two more to follow shortly.
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	Scanning is now done on a daily basis by Central Print office. Discussions are continuing with officers regarding printing.
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	An agreement is in place to purchase EPIC, a product developed by South Yorkshire Pension Fund that will enable better monitoring of cases. Currently awaiting an implementation date from SYPF.
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	Initial processes have been recorded and stored on shared drives. An on-going review of the documents has begun.
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	Work has begun on the recommendations put in place by SAB
Employer Training	Continued Improvements	To increase comms with employers, mainly through use of MS Teams	On-going	Nothing to report yet
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	Initial data reports from employers have started to come in. Working with System providers regarding the interface tool that has been provided for the upload of the data, still on-going.
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	Tender exercise has concluded and Hymans Robertson have been retained as our scheme actuaries

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Appendix B

The Pensions Regulator | Making workplace pensions work

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Home > Avoid pension scams > Pledge to combat pension scams

Pledge to combat pension scams

Not every pension scam can be prevented. But we're asking trustees, providers and administrators to pledge to do what they can to protect scheme members and follow the principles of the Pension Scams Industry Group (PSIG) Code of Good Practice.

Pledging to combat pension scams shows your intent to protect your members. It tells your members and the pensions industry that you are committed to stopping scammers in their tracks. Once you have taken the pledge it's up to you and your scheme or organisation to take action.

Step 1. Pledge you will combat pension scams

To make the pledge you should commit to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from one of the services offered by the Money and Pensions Service
- get to know the warning signs of a scam and best practice for transfers by completing the scams module in the Trustee Toolkit and encouraging all relevant staff or trustees to do so; studying and using the resources on the Financial Conduct Authority (FCA) ScamSmart website, our scams information and the PSIG code; considering becoming a member of the Pension Scams Industry Forum by contacting PSIG
- take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the scheme member

Make the pledge

Step 2. Self-certify you have taken action to meet the pledge

You should take action to implement the pledge commitments so that you are helping to make sure fewer members are devastated by scams.

Once you have taken action you can self-certify to fully demonstrate to your members and the pension industry that you're following the pledge commitments. We will send you resources that you can use to show your commitment and demonstrate that you're using best practice.

If you are communicating your achievement in meeting the commitments of the pledge to the public or scheme members it is important you are transparent about what this means. You should be clear that this process has required you to self-certify you follow the pledge and not that TPR has certified you.

Find out how to self-certify you meet the pension scams pledge.

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LOCAL PENSION BOARD – 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT ARRANGEMENTS (INCLUDING INTERNAL AUDIT WORK CONDUCTED DURING 2020-21 AND THE INTERNAL AUDIT PLAN 2021-22) AND THE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board (the Board) about: -
   a. the internal audit arrangements for the Leicestershire County Council Pension Fund (the Fund)
   b. to summarise the outcomes of audits conducted during 2020-21 and outline the internal audit plan for 2021-22
   c. to 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 Terms of Reference for the Leicestershire Local Pension Board (the Board) record that it shall, *'…assist (Leicestershire) County Council (the Council), as administering authority, in ensuring the effective and efficient governance and administration of the (Local Government Pension) Scheme'*.

3. The Council is required to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Council's Director of Corporate Resources who undertakes the role and responsibilities of the Fund's Treasurer (the Treasurer).

4. The Council's Financial Procedure Rules apply to the administration of the Fund, and specifically rule 4F (15) which places responsibility on the Director of Corporate Resources for arranging a continuous internal audit of the County Council's financial management arrangements. This responsibility is derived from the Local Government Act 1972 and the Accounts and Audit Regulations 2015. Leicestershire County Council Internal Audit Service (LCCIAS) managed by the Head of Internal Audit and Assurance Service (HoIAS), provides the internal audit function to the Fund.

5. The Board's constituted responsibility for ensuring effective and efficient governance, allows for reporting plans for, and the results of internal audit activity to the Fund's designated governing body.

The Internal Audit Function

6. The Public Sector Internal Audit Standards (PSIAS), Revised 2017, define internal audit as: - 'An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

7. The PSIAS require that after the closure of the audit year, the nominated Head of Internal Audit Service (at the County Council, the Head of Internal Audit & Assurance Service undertakes this role), reports to those charged with governance (the Board), on work conducted during the year containing a summary of findings, recommendations and opinions. The PSIAS also require that at the beginning of the audit year, an annual plan of audits should be agreed with the Treasurer and noted by the Board.

8. Most planned audits are 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are 'consulting' type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Unplanned 'investigation' type audits may also be required.

9. For each audit, Terms of Engagement are agreed with the Treasurer or his representative. After the audit, the Treasurer receives a report containing any findings and recommendations for control improvements and an 'opinion' on what level of assurance can be given that risks are being managed. There are four assurance levels: full; substantial; partial; and little. If any recommendations are graded high importance (HI) i.e. denoting either an absence of a key control or evidence that a key control is not being operated and as such the system is open to material risk exposure, this would normally mean that the opinion would be graded as only 'partial' assurance. HI recommendations would be reported to the Local Pensions Committee and would remain in that Committee's domain until the HoIAS was satisfied that corrective action had been implemented. Additionally, because of the County Council's statutory duty to administer the Fund, HI recommendations will continue to be tabled at meetings of the Corporate Governance Committee.

10. The Board may choose to ask the HoIAS to explain HI recommendations and especially any slippage beyond agreed dates in implementing actions.

Internal Audit Work Conducted During 2020-21

11. Appendix 1 contains a brief summary of the work conducted by LCCIAS during 2020-21. Two audits outstanding from the previous year were concluded and four assurance audits were undertaken. The assurance grading was overall positive. There were no HI recommendations. Of the four audits undertaken, three were shared with the Fund's External Auditor (Grant Thornton LLP) in order to inform their audit risk assessment in preparation for their annual audit of the Fund's accounts. In addition to this, detailed advice was given in two separate areas, ie, Immediate payments and input to the wider Internal Audit Group as part of the 'pooled' funds work.

12. LCCIAS also co-ordinated the County Council's requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. Investigations into cases reported are currently ongoing.

13. Four members of staff from Internal Audit were temporarily re-deployed to the Pension Section to provide much needed support to essential tasks, within the section, as a result of the Covid-19 pandemic. In total, over 100 days support was provided.

14. As part of the ongoing collaborative work with partner fund internal auditors, the LGPS Central Limited AAF Internal Controls Report for the period 1 April to 31 December 2020, was received. The report was unqualified as was the report for the previous quarter, ie. 1 January to 31 March 2020. Whilst ten exceptions had been identified, LGPS staff confirmed that they were satisfied that no investors were adversely affected nor any information incorrectly reported. In addition to this, a bridging letter for the period 1 January to 31 March 2021 was also provided, giving further assurance on the control environment during the quarter.

15. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2020-21 internal audit plan

	Audits	Complete @ 31/3/21	Incomplete @ 31/3/21	Plan days	Actual days	Diff
Carried f/d Jobs	2	2	0	5	7	+2
Planned+Advisory	8	7	1	62	63	+1
Client management	1	1	0	5	5	0
Total	**11**	**10**	**1**	**72**	**75**	**+3**

16. The total charge to the Fund for all internal audit work undertaken during 2020/21 was £26,175. This excludes re-deployed staff time.

The Internal Audit Plan 2021-22

17. Appendix 2 contains a brief summary of audits planned during 2021-22. To compile the plan, the HoIAS held discussions with the Fund Treasurer and the Pensions

Manager. An assumption has been made that in their audit of the Fund's accounts, the External Auditors (Grant Thornton) will continue to utilise LCCIAS's work in their audit risk assessment.

18. The final part of the plan is client management and includes the HoIAS duties of planning, reporting and attending the Board.

19. The cost of the planned 75 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £26,175.

Risk Management and Internal Control

20. The 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.

21. The risk register is the responsibility of the Pensions Manager, and is maintained and updated by him. The Internal Audit plan is partly based on some risks that feature in the risk register. The latest risk register has been attached as Appendix 3 to this report. One new risk has been added since the last update (February 2021), as detailed below:

    - Risk 8 – If the fund's in-house AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund may be late in making payment of benefits to scheme members.

    In addition, Risk 2 has been amended slightly to include year-end.

Recommendation

22. The Board is asked to note the report and the revised Pension Fund risk register.

Equality and Human Rights Implications

None specific

Appendices

Appendix 1 - Internal Audit Work Conducted in 2020-21
Appendix 2 - Internal Audit Plan 2021-22
Appendix 3 - Risk Register (May 2021)

Officers to Contact

Neil Jones (Head of Internal Audit & Assurance Service)
neil.jones@leics.gov.uk
(0116) 305 7629

Chris Tambini (Fund Treasurer)
Chris.tambini@leics.gov.uk
(0116) 305 6199)

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Internal Audit Work Conducted in 2020 - 21

Appendix 1

Audit Title	**Audit objective...to ensure…**	**Opinion**
	Work c/f from previous year (19/20) now concluded as follows: - Investments – Audit Assurance Framework (Finalised June 2020) - Effectiveness of the Local Pension Board (Finalised August 2020)	 Substantial Substantial
Contribution Banding Changes[1]	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from April 2020.	Substantial
Contribution Calculations[1]	Contributions to the Pension Fund have been correctly applied from April 2020 from the following: o Leicestershire County Council (LCC) o Other Employing Bodies, where LCC does/does not administer the payroll on their behalf.	Substantial
Pension Increase[1]	The validity and accuracy of the annual Pensions Increase.	Full
Governance & Risk	'Deep Dive' findings identified by The Pensions Regulator (TPR) are adequately addressed.	Substantial
Immediate Payments	'One-off' payments, Eg. Lump sums, refunds, transfers and death grants are correctly processed via the pension system.	Advisory
Investment Risks (LGPS)	Investments are adequately managed, and investment processes are robust (To be completed on behalf of the wider Internal Audit Group).	Ongoing
LGPS Central	Company Risks – Review of AAF/0106 Control Report and feedback as part of the wider	Advisory

(Investments)	Internal Audit Group.	
National Fraud Initiative (NFI)	Pension matches (normally continuing payments after death) are investigated and monitored.	Ongoing
Client management	To include: - • Research and any advice to the Fund’s officers. • Annual planning and reporting including attendance at the Local Pension Board.	Complete

[1] These audits will be used by the External Auditor (Grant Thornton UK LLP) to inform their audit risk assessment.

Internal Audit Plan 2021 - 22 **Appendix 2**

Audit Title	Audit objective...to ensure…	Days
	Work in progress at the end of March 2021 as follows: - Investment Risks (LGPS)	4
Contribution Banding Changes[1]	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from April 2021.	6
Contribution Calculations[1]	Contributions to the Pension Fund have been correctly applied from April 2021 from the following: o Leicestershire County Council (LCC) o Other Employing Bodies, where LCC does/does not administer the payroll on their behalf.	7
Pension Increase[1]	The validity and accuracy of the annual Pensions Increase is applied correctly and on time.	6
Good Governance Project	Recommendations from the Good Governance Project have been adequately addressed and implemented.	12
McCloud – Data Collection and Input	Guidance received is followed in relation to any members affected by the judgement.	6
Pension Creation[1]	Payments for new pensioners, including lump sum payments and death grants are valid and accurate.	10
Pension Pooling – Transitions	Arrangements in place to manage the transition process are adequate	12
LGPS Central (Investments)	Company Risks – Review of AAF Control Report and feedback as part of the wider Internal Audit Group.	4

National Fraud Initiative (NFI)	Pension matches (normally continuing payments after death) are investigated and monitored.	3
Client management	To include: - • Research and any advice to the Fund's officers. • Annual planning and reporting including attendance at the Local Pension Board.	5
Total days		**75**

[1] These audits will be used by the External Auditor (Grant Thornton UK LLP) to inform their audit risk assessment.

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** **This includes data at year-end**	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 and employers that change payroll systems so require new reporting processes	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations Failure to meet statutory year-end requirements	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) Year-end specifications provided	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**	Pensions database now hosted outside of LCC. Employer data	Diminished public trust in ability of Council to provide services. Loss of confidential	Ian Howe	Regular LCC Penetration testing and enhanced IT health checks in	5	2	10	Treat	Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can	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; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		information/cyber security and governance requirements, then there may be a breach of the statutory obligations.	submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users.	information compromising service user safety. Damage to LCC reputation. Financial penalties.		place. LCC have achieved PSN compliance. New firewall in place providing two layers of security protection in line with PSN best practice.					Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes 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	**The resolution of the McCloud case could increase administration significantly resulting in difficulties providing the ongoing pensions administration service** **The liabilities of the Fund are expected to increase for all employers**	Mr McCloud winning his appeal on age discrimination on public sector pension schemes and the protection afforded to older members during the move to career average benefits, followed by Government losing their right of appeal.	Ultimate outcome currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs	Ian Howe	Guidance from LGA, Hymans, Treasury	3	3	9	**Treat once details are confirmed**	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	**If contribution bandings and contributions are not**	Errors by Fund employers payroll systems when setting	Lower contributions than expected.	Ian Howe	Pension Section provides employers with the annual	4	2	8	**Treat**	Pension Officers check sample cases at year-	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; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		applied correctly, the Fund could receive lower contributions than expected	the changes	Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary		bandings each year. Pension Section provides employers with contributions rates (full and 50/50) Internal audit check both areas annually and report their findings to the Pensions Manager					end Pension Officers to report major failings to internal audit before 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**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested	Reputation Future bad advice claims brought against the Fund IDRP appeals	Ian Howe	TPR checks Follow LGA guidance Queries escalated to Team Manager	3	3	9	Treat	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity Further escalation	3	2	6	Ian Howe

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Risk no	Service	Risk	Causes (s)	Consequences	Risk Owner	List of current controls	I	L	Current Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		pension administration	in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up	(possible compensation payments)		then Pensions Manager					process to external Legal Colleagues Considering signing up to The Pension Regulator's national pledge "To Combat Pension Scams"				
8	Pens	**If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members**	The Fund must offer AVCs as per the Regulations Prudential implemented a new administration system in November 2020 Covid lockdown restrictions and home working	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Ian Howe	Written to all active scheme members with AVCs Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Weekly list of outstanding cases sent to the Prudential for priority	**3**	**3**	**9**	**Treat**	Reporting the delayed payment of benefits (due to the Prudential's delays) as a material breach to the Pensions Regulator Invited the Prudential to the Local Pension Board on the 24 May 2021 Prudential to provide a clear and detailed improvement plan	**3**	**2**	**6**	Ian Howe
9	**Invs**	**Employer and employee contributions are not paid accurately and on time**	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	**2**	**4**	**8**	**Treat**	Late payers will be reminded of their legal responsibilities.	**2**	**3**	**6**	Declan Keegan

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
						employers with a view to early view of funding issues.									
10	Invs	**Assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	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 employers with respect to the direction of future rates.	**4**	**2**	**8**	Bhulesh Kachra
11	**Pens/ Invs**	**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**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer	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	**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	**4**	**2**	**8**	Ian Howe/ Declan Keegan

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
		employer		contribution rates. Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.		fair treatment continues.					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				
12	Invs	**Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates**	Poor market returns most probably caused by poor economic conditions and/ or shocks e.g. CV19.	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Chris Tambini	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	5	2	10	Treat	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns.	4	2	8	Bhulesh Kachra
13	Invs	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable**	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	Chris Tambini	Ensuring that the causes of underperformance are understood and acted on where	3	3	9	Treat	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that	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; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
		expectations		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		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					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				
14	**Invs**	**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**	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	Ensuring that all factors that may impact onto investment returns are taken into account when setting the asset allocation. Only appointing investment managers that integrate responsible	**3**	**4**	**12**	**Treat**	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. Annual refresh of the	**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; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
						investment (RI) into their processes. Utilisation of dedicated RI team at LGPS Central and preparation of a RI plan for the fund.					Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant sort term changes to the allocation. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time.				
15	Invs	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Chris Tambini	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions	3	3	9	**Treat**	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	2	2	4	Bhulesh Kachra
16	Invs	**The transition of investment assets to LGPS Central is not successful**	Pooling does not reduce the on-going management costs of assets Transition costs are significantly higher, for example the cost of selling the existing investments and buying new ones.	Savings available do not justify the transition costs and on-going cost of running LGPS Central	Chris Tambini	Central maintains the flexibility to run funds internally. Specialist transition manager being appointed, with independent specialist oversight. Formal review follows each	2	3	6	**Treat**	Approach for each transition assessed independently. Views from 8 partners sought throughout the transition process. LGPS Central's Internal Audit plan includes an assessment of the governance surrounding	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; *Tolerate* *Treat* *Terminate* *Transfer*	Further Actions / Additional Controls	I	L	Residual Risk Score	Action owner
						transition. Implementation being phased, allowing capacity to be managed and lessons learned.					the transition				

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

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

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

Risk Likelihood Measurement Criteria

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

Risk Scoring Matrix

Impact	1	2	3	4	5
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

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)

Agenda Item 12

Leicestershire County Council PENSION FUND

LOCAL PENSION BOARD - 24TH MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CONFLICT OF INTEREST POLICY

Purpose of the Report

1. To seek comments from the Board for the draft Leicestershire Pension Fund Conflicts of Interest Policy attached as Appendix A.

Background

2. In February 2021 the Scheme Advisory Board published its final Good Governance Phase 3 Report which was produced by the Hymans Robertson Project Team. A key recommendation was "Each Fund must produce and publish a conflicts of interest policy which includes details of how actual. Potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance". Further detail on the recommendations is included within a separate report on the agenda.

3. Conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

Conflict of Interest Policy

4. Whilst the current legislative background largely relates to managing conflicts of interest with respect to members of Local Pension Boards, in the interests of best practice, this Policy will relate to:

- All members of the Local Pension Board (the Board)

- All members of the Pension Committee and Investment Subcommittee (the Committee), including non-voting employee representatives.
- Senior officers involved in the governance and management of the Pension Fund
- All advisers and suppliers to the Fund, whether providing advice or supplies to the Board, the Committee or Fund officers

5. The Policy is intended to aid good governance, in conjunction with the Fund's other governing policies, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund. The Policy will be reviewed annually and will be revised if the conflict of interest management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant regulations or guidance which need to be taken into account.

6. If approved all members of the Committee and Board and Senior Officers will be required to complete a Declarations of Interest form.

Timetable for Decisions

7. A report on the draft Conflict of Interest Policy will be considered by the Pension Committee on 4 June 2021.

Recommendation

That the Board support the draft Conflict of Interest Policy.

Appendix

Draft Conflict of Interest Policy

Background papers

Local Pension Board 10 August 2020 Good Governance Phase 2 – Progress Report

http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=6203&Ver=4

Leicestershire Pension Fund Conflict of Interest Policy

Contents

Introduction

1. This is the Conflict of Interest Policy ("the Policy") of the Leicestershire Pension Fund ('the Fund'), which is managed by Leicestershire County Council (the 'Administering Authority'). The Policy details how actual and potential conflicts of interest will be identified and managed by those involved in the management and governance of the Fund, whether directly, or in an advisory capacity.

2. Conflicts of interest have always existed for those with LGPS administering authority responsibilities. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as members of the Fund (existing employees and/or retired employees), as an Elected Member of an Employer participating in the LGPS, or as an adviser to more than one LGPS administering authority. Furthermore, any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role in managing or advising on LGPS funds.

3. It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the Fund beneficiaries and participating Employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. In accordance with good practice, however, it is essential that such conflicts are recorded and managed appropriately.

4. This Policy is aimed at helping Fund beneficiaries, members of the Pension Committee, Investment Subcommittee and the Local Pension Board, as well as officers and advisers to the Fund, to identify when such conflicts of interest might arise and provide a process to enable these to be documented and manged. This is to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. The Policy is intended to aid good governance, in conjunction with the Fund's other governing policies, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

5. This Policy should be read in conjunction with other Leicestershire County Council Constitutional documents, including the Members' and Officers' Codes of Conduct *(see paragraph 11 below)*. It is recognised that these Codes already impose on elected members, co-opted members and officers' requirements regarding the registration of interests and the declaration of potential conflicts. This Policy is intended to strengthen these existing

processes, recognising the specific conflicts that can arise in respect of Pension Fund matters.

*[**Note:** This policy has been developed in regard to the Public Service Pension Act 2013 Section 5, The Local Government Pension Scheme Regulations 2013 regulation 108 and 109, the Pensions Act 2004 Section 90A and Section 13, CIPFA Investment Pooling Governance Principals for LGPS Administering Authorities Guidance and the Localism Act 2011 along with Leicestershire County Council's Members' Code of Conduct and Employee Code of Conduct. Further information on the legislative background and related guidance is attached as Appendix 4.]*

To whom this Policy Applies

6. This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

7. This Conflicts of Interest Policy applies to:

7.1 **Pension Committee and Local Pension Board Members:** All members of the Pension Committee, Investment Subcommittee and the Local Pensions Board, including scheme members and employer representatives, whether voting members or not.

*[**Note:** For the avoidance of doubt, all references in this Policy to the Pension Committee are to be interpreted as also including the Investment Subcommittee].*

7.2 **Officers:** Senior officers of Leicestershire County Council involved in the management and governance of the Fund, namely the Director of Corporate Resources, Assistant Director of Finance, Strategic Property and Commissioning, the Pensions Manager, the Director of Law and Governance, the Head of Law and Finance officers giving direct advice to the Fund.

*[**Note**: The Director of Law and Corporate Governance as Leicestershire County Council's Monitoring Officer ('the Monitoring Officer') will consider potential conflicts for other officers who are either involved in the daily management of the Pension Fund, or whose role within Leicestershire County Council may have implications no the Pension Fund and highlight this Policy to them as he/she considers appropriate.]*

7.3 **External advisers:** All those contracted to support the Fund, whether advising the Pension Committee, Local Pension Board, or Fund officers, in relation to their role in advising or supplying the Fund.

*[**Note:***

- *In this Policy, reference to advisers includes all advisers, suppliers and other parties contracted to provide advice and services to Leicestershire Pension Fund in relation to Pension Fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians, asset pool operators and AVC providers.*

- *Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Fund rather than the firm as a whole.]*

Leicestershire Pension Fund's General Requirements

8. In accepting any role covered by this Policy, the individuals concerned agree that they must:
   - acknowledge any potential conflict of interest they may have;
   - be open with the Fund on any conflicts of interest they may have;
   - adopt practical solutions to managing those conflicts; and
   - plan ahead and agree with the Fund how they will manage any conflicts of interest which arise in future.

The Nolan Principles

9. Such individuals must at all times have regard to the following seven Principles of Public Life (i.e. the 'Nolan Principals') which are integral to the successful implementation of this Policy. These principals are:-

   - Selflessness
   - Integrity
   - Objectivity
   - Accountability
   - Openness
   - Honesty
   - Leadership

*[**Note:** Further details of these principles are set out in Leicestershire County Council's Members' Code of Conduct.]*

10. The procedures outlined in this Policy provide a framework for each individual to meet the above requirements which are derived from these Nolan Principles.

Other Specific Requirements

11. In addition to the requirements of this Policy:

11.1 **Pension Committee and Local Pension Board Members** (see 7.*1 above)*
Elected and co-opted Members of the Pension Committee and Local Pensions Board are required to adhere to the Leicestershire County Council's Members' Code of Conduct which includes additional requirements in relation to disclosable pecuniary interests, personal interests and interests which might lead to bias.

11.2 **Officers** *(see 7.2 above)*
Officers of Leicestershire County Council are required to adhere to the Leicestershire County Council Officers' Code of Conduct which includes requirements in relation to personal, business, financial and other interests.

11.3 **External advisers** (see 7.3 above)
The Fund appoints its own external advisers. How conflicts of interest will be identified and managed should be addressed within its contractual agreements with those advisers. This will be managed in the usual way through compliance with the County Council's Contract Procedure Rules as set out in Part 4G of the Constitution.

11.4 **External advisers' Professional Standards**
External advisers are required to meet professional standards relating to the management of conflicts of interest. For example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries, whereas the LGPS Central Pool ("LGPS Central") are bound by the Financial Conduct Authority and their own Conflict of Interest Policy as agreed by partner funds within the Inter-Authority Agreement Any protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

What is a Conflict or Potential Conflict?

12. The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions. Therefore, a conflict of interest may arise when **an individual has a responsibility or duty in relation to the management of or advice for the Fund, and at the same time has**:

12.1 **a separate personal interest (financial or otherwise)** which relates to or is likely to affect: -

- their wellbeing or financial position, or the wellbeing or financial position of a relevant person, to a greater extent than the majority of Fund Members.
- any body of which they are a member or in a position of general control or management which may impact decisions made in the best interests of the Fund.
- the interests of any person or body from whom they have received a gift or hospitality with an estimated value of at least £50 within the last 12 months.

*[**Note:***

- *A 'relevant person' has for the purposes of this Policy, the same meaning as that given in Leicestershire County Council's Member's Code of Conduct.*
- *For the purposes of this Policy, minor gifts such as t-shirts, pens, trade show bags and other promotional items obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared.*
- *Members must declare personal gifts of more than £50 received in the last 12 months in accordance with Leicestershire County Council's Members' Code of Conduct. Leicestershire County Council officers are also required to declare gifts and hospitality received in accordance with the Leicestershire County Council Gifts and Hospitality Policy for Employees.]*

12.2 **another responsibility in relation to that matter** such as: -

- Any commercial relationship between the Administering Authority, and other employers in the fund/or other parties which may impact decisions made in the best interests of the Fund. These may include where the County Council has a contractual arrangement with an advisor in respect of its own financial arrangements or shared service arrangements which impact the Fund operations directly. This will also include outsourcing relationships and companies related to or wholly owned by the Council, which do not relate to pension fund operations.

-
- The County Councils own financial investments.

- Contribution setting for the administering and other employers.

- Cross charging for services or shared resourcing between the Administering Authority and the Fund and ensuring the service quality is appropriate for the Fund.

- The dual role of Leicestershire County Council as owner and client of LGPS Central.

- Investment decisions about local infrastructure

- How the Fund appropriately responds to Council decisions or policies on global issues such as climate change.

- Other roles within the Council being carried out by elected and/or co-opted Members or officers which may result in a conflict either in the time available to dedicate to the Fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or the Cabinet should be disclosed or role as

13. It should be noted that the **Public Service Pensions Act 2013** is clear that a person **will not** have a financial or other interest merely by virtue of their membership of the Fund or any connected scheme.

14. Examples of potential conflicts for all those involved in managing the Fund, are included in Appendix 1.

15. The Fund encourages a culture of openness and transparency and will encourage individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and of how potential conflicts should be managed. This will be assisted by providing regular training to members of the Pension Committee, Local Pension Board and officers on managing conflicts of interest.

16. Further to this Conflict of Interest Policy the Fund has agreed a number of governing strategies and policies that look to mitigate the potential for conflicts in relation to the responsibilities listed in 12.2 and the dual role of Leicestershire County Council as Administering Authority and Employer and the role it holds in relation to LGPS Central. Examples are included within Appendix 5.

Procedure for registering and declaring interests and participating in meetings

Officers and Pension Committee and Local Pension Board members

Step 1 - Initial identification and registration of interests.

16. On appointment to their role or on the adoption of this Policy if later, all individuals (as defined under paragraphs 7.1 and 7.2) will be provided with a copy of this Policy and required to complete a Declaration of Interest (Appendix 2). This information will be provided to the Monitoring Officer who will assess the extent to which any declarations are relevant to the individual's role in relation to the Fund and collate them into the Pension Fund Register of Interests (Appendix 3). Individuals are responsible for maintaining their register of interest on a continuous basis.

Step 2 – Declaration at and participation in Meetings

17. At the beginning of any Pension Committee, Local Pension Board or other formal meeting where Pension Fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any interests and potential conflicts relating to matters which are to be considered at that meeting. All interests declared will be detailed in the minutes of the meeting.

18. Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chairman and the Monitoring Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. Options for managing a potential conflict of interest from becoming an actual conflict of interest include:

- The individual concerned abstaining from discussion, decision making or providing advice relating to the relevant issue and abstention from any vote taken on the matter at the meeting.
- The individual being excluded from the meeting(s) and any related correspondence or material in connection to the relevant issue.

Ways in which conflicts of interest will be managed at a meeting are detailed in [Leicestershire County Council's Code of Conduct for Members].

19. The Chairman, in consultation with the Monitoring Officer (or her representative at the meeting), will advise the individual whether they need to leave the meeting during the discussion on the relevant matter or to withdraw from voting or providing advice on the matter.

20. There may be circumstances where a representative of more than one employer or a scheme member representative wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members, or union), that they are not recognised as representing by virtue of their Membership. In such cases the Fund requires that any individual wishing to so speak must state this clearly, e.g. at a Board or Committee meeting, and that this is recorded in the minutes

Step 3 - Ongoing notification and management of potential or actual conflicts of interest

21. If a new conflict is identified outside of a meeting the individual must notify the Monitoring Officer and update their Register of Interest as soon as possible. The Monitoring Officer, will consider any necessary action to manage the potential or actual conflict.

Step 4 - Periodic review of potential and actual conflicts

22. At least once every 12 months Democratic Services will provide to all those to whom the above procedures apply a copy of their Register of Conflicts of Interests to review and update. All individuals will confirm in writing that the information held in relation to them is correct or, if that is not the case, they will complete a new Declaration of Interest as per Step 1 and the Register will be updated.

External Advisers

23. Although this Policy applies to all external advisers, the operational procedures outlined in steps 1 and 4 above relating to completing ongoing declarations are not expected to apply to such advisers. Instead all external advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated;
- adhere to the principles of this Policy;

- provide, on request, information to the Administering Authority in relation to how they will manage actual or potential conflicts of interest relating to the provision of advice to Leicestershire County Council and the Fund;
- notify the Director of Corporate Resources immediately should a potential or actual conflict of interest arise. All potential or actual conflicts notified by advisers will be reported to the Monitoring Officer and recorded in the Fund's Register of Conflicts of Interest.
- highlight at a meeting should a potential or actual conflict of interest arise in respect of an item to be considered at that meeting.

How will conflicts be managed and who is responsible?

24. It is the responsibility of each individual covered by this Policy to ensure all obligations in this Policy are met, to identify any potential instances where their personal, financial, business or other interests might come into conflict with their Pension Fund duties and to ensure these are registered and declared in accordance with the procedures above.

25. Any individual who considers that they or another individual has a potential, or actual, conflict of interest which relates to an item of business at a meeting must advise the Chairman and the Monitoring Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. Further detail is set out within Step 2 - Declaration at and Participation in Meetings.

26. Where any individual considers that they or another individual has a potential, or actual, conflict of interest outside any meeting situation they must notify the Monitoring Officer at the earliest opportunity.

27. Provided that the Administering Authority (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, it shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest.

28. As outlined in paragraph 2 and 3, it is generally accepted that individuals subject to this Policy hold a variety of other roles such as members of the scheme, Elected Member of an Employer participating in the LGPS, or as an adviser to more than one LGPS administering authority. However, this does not necessarily preclude those involved in managing or advising the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

29. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Committee or Board member has an actual conflict of interest as defined in the Public Service Pensions Act, the individual will be required to resign from the Committee, Board on appointment.

Monitoring and Reporting

30. The Fund's Register of Conflicts of Interest, an example attached as Appendix 3, will be held and maintained by the Monitoring Officer.

31. To identify whether the objectives of this Policy are being met, the Fund will review the register on an annual basis and consider whether there have been any potential or actual conflicts that were not declared at the earliest opportunity.

32. The Fund must be satisfied that conflicts of interest are appropriately managed and for this purposes, the County Council's Monitoring Officer is the designated individual for overseeing the application of this Policy and that the procedures outlined within it are adhered to. Any person who thinks they may have a potential or actual conflict of interest should seek the advice of the Monitoring Officer at the earliest possible opportunity.

33. The Fund will further report on these matters through the Annual Governance Statement that is considered by the Local Pension Board and agreed by the Pension Committee.

Key Risks

34. The key risks to the delivery of this Policy are outlined below, all of which could result in an actual conflict of interest arising and not being properly managed.

- insufficient training or poor understanding in relation to individuals' roles on Pension Fund matters;
- failure to communicate the requirements of this Policy;
- absence of the individual allocated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy;
- failure by a Chairman to take appropriate action when a conflict is highlighted at a meeting; and
- failure by a Member to make a declaration of interest resulting in an actual conflict of interest.

35. The Pensions Committee, Local Pension Board, Officers and the Administering Authority's Monitoring Officer will monitor these and other key risks and consider how to respond to them.

Approval and Review

36. The Conflicts of Interest Policy was approved by the Pension Committee on _______. It will be formally reviewed and updated at least once every three years, or sooner if the conflict management arrangements or other matters included within it, in the opinion of the Monitoring Officer, merit reconsideration.

37. For further information about anything in or related to this Conflict of Interest Policy, please contact:

Democratic Services
Democracy@leics.gov.uk
0116 305 5483

Appendix 1 – Examples of Conflicts of Interest

The only conflict that is clearly authorised is that of a member of the scheme by virtue of his or her membership (Section 39 of the Pensions Act 1995). Each member has a fundamental responsibility to act on behalf of the scheme and this duty should not be compromised by acting on behalf of other groups. Some conflicts, however, are set out below**.**

- There may be situations where a member or supporting officer of the Pension Committee or Board, who is also an officer for Leicestershire County Council faces conflict priorities by virtue of their two roles. For example, they may be required to review a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending.
- A scheme member representative who works in the Administering Authority's internal audit department may be required as part of his work to audit the Fund. For example, the employee may become aware of confidential breaches of law by the Fund which have not yet been brought to the attention of the Local Pension Board.
- An officer or member of the Committee accepting hospitality and/or gifts from a potential adviser or supplier could be perceived as a potential or actual conflict of interest; particularly where a procurement exercise relating to those services is imminent.
- An employer representative on the Local Pensions Board is employed by a company to which Leicestershire County Council has outsourced its pension administration services and the Local Pensions Board is reviewing the standards of service provided by that company.
- A scheme member representative, who is also a trade union representative, appointed to the Local Pensions Board or Pension Committee to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than in the interests of all scheme members.
- An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee or Local Pensions Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their Employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee or Local Pensions Board.

- A Fund Officer applying to the pool operator for employment may give misleading advice to the Committee to further the aims of a prospective employer.
- An officer appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- The Pension Committee Chairman serving on the LGPS Central Joint Committee or the LGPS Central Shareholders' Forum or an Officer serving on an LGPS Central Officer group may be required to consider a matter that would disproportionately benefit or disadvantage Leicestershire Pension Fund.
- There may be situations where a Member or an Officer:
    - Holds personal investments with a Manager which the Fund is also invested in, or has the option of investing in;
    - Uses a Fund Advisor or Manager to advise on their own personal investments;
    - Holds stocks/shares which overlap with Fund investments

[Note: While it is recognised that an individual's holding may be small (well below 1% of the total share capital of a company*) it is possible the Members' or Officers' decision making or advice could be influenced if they were of the view that, for example, use of a particular Manager or investment in a particular could increase the value of their own personal holdings. Whilst it is unlikely such actions will make any financial material difference, it is the possible influence on an individual's behaviour which is key and so such interests, however small, should always be registered and declared in line with this Policy.]*

This list is not exhaustive, nor will all of the examples necessarily give rise to significant conflict of interests. If you are in doubt about whether a conflict has arisen, please consult the Monitoring Officer.

Appendix 2 - Declaration of Interest Form

I, [insert full name], am: (Tick as Appropriate)

- a senior officer involved in the management ☐
- Pension Committee Member ☐
- Investment Subcommittee Member ☐
- Local Pension Board Member ☐

of Leicestershire Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Leicestershire Pension Fund Conflict of Interest Policy. I have put 'none' where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to your spouse's or civil partner

C) Disclosure of Gifts and Hospitality -You should reveal the name of any person from whom you have received a gift or hospitality with an estimated value of at least £50 which you have received within the last 12 months.

Date of receipt of Gift/Hospitality	Name of Donor	Reason and Nature of Gift/Hospitality

Undertaking

I declare that I understand my responsibilities under the Leicestershire Pension Fund Conflict of Interest Policy. I undertake to notify the Monitoring Officer of any changes in the information set out above.

Signed ________________________________ Date ____________________

Name (CAPITAL LETTERS) ____

Appendix 3 – Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Leicestershire County Council, the Administering Authority.

Date Identified	**Name**	**Role**	**Details of Conflict**	**Actual/Potential/Perceived conflict**	**How Notified(1)**	**Action Taken (2)**	**Follow up required**	**Date Resolved**

(1) E.g. verbal declaration at meeting, written conflicts declaration etc
(2) E.g. withdrawing from a decision making process, left meeting

Appendix 4 – Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. While the majority of the legislation currently relates to managing conflicts of interest with respect to members of Local Pension Boards, in the interest of best practice are to be applied to all individuals involved in the management and governance of Leicestershire Pension Fund.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the Administering Authority) must be satisfied that a Local Pension Board Member does not have a conflict of interest at the point of appointment and thereafter. It also requires Members to provide reasonable information to the scheme manager for this purpose. The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a Member of the Board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national Scheme Advisory Board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Board Members do not have conflicts of interest on appointment or whilst they are Members of the Board. It also requires those Board Members to provide reasonable information to the Administering Authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Local Pension Boards. Further, regulation 110 provides that the national Scheme Advisory Board has a function of providing advice to Administering Authorities and Local Pension Boards. The LGPS National Scheme Advisory Board issued guidance relating to the establishment of Local Pension Boards including a section on conflicts of interest.

The Pensions Act 2004

Section 90A of the Pension Act 2004 requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for Members. The Pensions Regulator has issued such a code and this Conflict of Interest Policy has been developed having regard to that code. Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Members are not being adhered to.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisers might have." It includes some examples of how conflicts of interest could arise in these new roles. It highlights the need for Administering Authorities to:

• update their conflicts policies to have regard to asset pooling;

• remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities; and

• ensure declarations are updated appropriately. This Conflict of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Information about these requirements can be viewed at:
www.actuaries.org.uk/regulation/pages/conflicts_of_interest

Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Appendix 5 – Leicestershire Pension Fund Governing Policies

Leicestershire County Council recognises its dual role as employer participating in the Fund and the Administering Authority legally tasked with the management of the Fund can create the potential for Conflicts of Interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived Conflict arises and that all of the Fund's employers are treated fairly and equitably. The Fund manages this risk through strategies and policies such as the following:-

- The **Funding Strategy Statement** sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund's Actuary and is opened to consultation with all Fund employers and the Pensions Board prior to formal approval by the Pension Committee. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.

- The **Administration and Communication Strategy** sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. Where a scheme employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy provides for that cost to be recovered from the employer. Major changes are consulted with Fund Employers and the Local Pension Board before it is formally approved by the Pension Committee.

- The **Investment Strategy Statement** sets out the Fund's objectives with the aim to maximise returns whilst maintaining an acceptable level of risk and addresses areas of governance, management, asset allocation, pooling and responsible investment. The Investment Strategy Statement is written independently from any positions the County Council may hold to ensure the Fund meets its fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Decisions affecting the Funds strategy are taken by the Pension Committee with appropriate advice from the Fund's advisors.

- Furthermore, the Fund is run for the benefit of its members and on behalf of all its employers. For that reason, the Fund's **Budget and Business Plan** are managed independently from Leicestershire County Council. The LGPS Senior Officer reviews the budget independently taking into account the full need of the service. The Budget and Business Plan is then considered by the Board before seeking approval by the Committee. Any spending controls in place for the County Council do not apply to the Fund, though the Fund is mindful of the need to manage costs to minimise the financial burden on scheme employers.

LGPS Central Investment Pool

The Fund further recognises the potential conflict posed through the involvement of pooling with LGPS Central. Specific governance arrangements have been established with LGPS Central and other partner funds reflecting each partner authority's role as business owner and client of LGPS Central. These are managed through the following forums:-

- The **Shareholder Forum** – The purpose is to oversee operation and performance of LGPS Central and to represent the ownership rights and interests of the shareholding Councils. The Forum is independent of LGPS Central and its meetings are separate from Company Meetings and is enshrined within the Shareholders' Agreement.
- The **Joint Committee** – A public forum for councils to provide oversight of the delivery of the objectives of the Pool, the delivery of client services, the delivery against its Business Case and to deal with common investor issues.

The **Investment Strategy Statement** further sets out the Fund's approach to Pooling and the Pensions Committee and Board will receive regular updates on the work of LGPS Central to enable Members to oversee and scrutinise its operations as set out in the respective Terms of References.