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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Clive Fraser (Vice-Chair)
Councillors Simon Brew, Jan Buttinger, Robert Canning, Pat Clouder and Yvette Hopley

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Reserve Members: Luke Clancy, Nina Degrads, Steve Hollands, Karen Jewitt, Caragh Skipper and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 25 May 2021** at **6.30 pm** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

JACQUELINE HARRIS BAKER
Council Solicitor and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Cliona May
Cliona.May@croydon.gov.uk
www.croydon.gov.uk/meetings
Monday, 17 May 2021

The meeting will be paperless. The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact the person detailed above, on the righthand side.

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

3. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

4. Review of Breaches Log (Pages 5 - 12)

For the Committee to consider the current breaches log, attached as Appendix A. *(Report attached)*

5. Budget Review

(Report to follow)

6. Pension Fund Medium Term Business Plan 2021/24 (Pages 13 - 32)

For the Committee to consider the draft Business Plan for the Fund for financial years 2021/22 to 2023/24 attached as Appendix A. *(Report attached)*

7. **Funding Strategy Statement (FSS) updates - Exit Credit and Employer Flexibilities Regulatory Amendments** (Pages 33 - 84)

For the Committee to consider the changes introduced to the LGPS in respect of exit credits and the option for a contribution review. The report also suggests how these changes could be reflected in the Funding Strategy Statement. *(Report attached)*

8. **Governance Consulting Contract**

(Report to follow)

9. **Croydon Pensions Administration Team Key Performance Indicators (KPIs)** (Pages 85 - 100)

For the Committee to consider the KPIs attached as Appendix 1. *(Report attached)*

10. **Reconsideration of Decision to Transfer Property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund** (Pages 101 - 106)

For the Committee to consider the decision to in principle allow the future transfer of properties leased to Croydon Affordable Homes and Croydon Affordable Tenures.

11. **Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

PART B

12. **Progress Report for Quarter Ended 31 March 2021** (Pages 107 - 108)

For the Committee to consider the Part B report attached. *(Appendices to follow)*

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REPORT TO:	**Pension Committee** **25 May 2021**
SUBJECT:	**Review of Breaches Log**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

1.1 The Committee is asked to note the contents of the Pension Fund Breaches Log and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Hewitt Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Committee's consideration.

3 DETAIL

3.1 The Pension Act 2004 (PA 2004, s 70) imposes duties on certain persons to report breaches of the law as follows:

70 Duty to report breaches of the law
(1) Subsection (2) imposes a reporting requirement on the following persons—
(a) a trustee or manager of an occupational or personal pension scheme;

(b) a person who is otherwise involved in the administration of such a scheme;

(c) the employer in relation to an occupational pension scheme;

(d) a professional adviser in relation to such a scheme;

(e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(2) Where the person has reasonable cause to believe that—

(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions, he must give a written report of the matter to the Regulator as soon as reasonably practicable.

(3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section. This is subject to section 311 (protected items).

(4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section. In line with this legislation The Pensions Regulator requires that a Breaches Log is maintained by the Fund. In their Governance Review Aon Hewitt recommended that the log was reviewed regularly by the Pension Committee. It was last reviewed on 16 March 2021. The current log is attached (Appendix A).

3.2 In this context a breach of the law is “an act of breaking or failing to observe a law, agreement, or code of conduct.” In the context of the LGPS this can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund’s statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

3.3 Since the Committee last reviewed the Log no items have been added.

3.4 The Committee is asked to note the contents of the Breaches Log and to comment.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Breaches Log attached as Appendix A

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations ("the Regulations") all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

6.2 Section 70 of the Pensions Act 2004 ('the Act') imposes a requirement on the following persons ('reporters') to report breaches of the law as it applies to the management and administration of the pension fund:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

6.3 The duty is to report the matter to The Pensions Regulator in writing as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to The Pensions Regulator

6.4 Under the Act a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

6.5 In addition, under the Pensions Regulator's Code: Reporting breaches of the Law, the Pensions Regulator has responsibility for regulatory oversight of the governance and administration of public service pension schemes, including the Local Government Pension Scheme (LGPS). The Pensions Regulator has published guidance in the Code of Practice no 14 (Governance and administration of public service pension scheme ('the Code'). Paragraphs 241 to 275 of the Code deal with reporting breaches of the law.

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Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

11.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:
Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:
None

APPENDIX:
Appendix A: Breaches Log

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Date	Category	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to the breach	Reported/Not reported (with justification if not reported and dates)	Traffic light colour	Outcome of report and or investigations	Outstanding actions	Comments
01-Oct-17	Administration Immaterial	Failure of the scheme employer (not the Council) to obtain a report from a Registered Medical Practitioner (IRMP). Failure of employer to decide whether to refer the employee to an Independent IRMP and to make a decision on their entitlement under reg 35. Failure to notify the member of any decisions made.	Failure of the employer to follow the correct procedures in relation to the LGPS has prevented timely and appropriate action under the regulations.	Member contacted the Pensions Team on 9 April 2015. Deferred benefits sent out 26 April 2017. Internal Dispute Resolution Procedure application received on 19 January 2018.	The matter was referred to the Pensions Ombudsman. No referral has been made to The Pensions Regulator.		Stage 1 complaint upheld on 1 May 2018. Compensation payment of £500.00 made 28 March 2019 for failure to notify benefits within required timescales. Stage 2 complaint upheld on 1 November 2019. Pension Ombudsman has closed the case as the member has now settled with her employer.		
Aug-19	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. Some had not required a statement as they had not passed an increase date. The remainder had the issues resolved and statements were sent out.	the matter was not referred to the Pensions Regulator. All the issues were identified through error reports and resolved. Statements were sent to all individuals where a statement was required. No further action was needed.		Not reported. Only 3.36% for active and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.		

Aug-20	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. There was an error suppressing ABS for members over age 65 and under NPA. The technical team issued 98.69% of the statements due. They are continuing to work on the remainder.	The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.		Not reported. Only 2.12% for active and 0.27% for deferred members not issued. The issues are being addressed so that notifications can be sent.		
Jan-21	Administration	**Failure to inform 100% of scheme members of their calculated benefits (refund or deferred) – backlog cases**	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Historical backlog is impacting performance. Contract has now been awarded to Hymans Robertson to provide administration services to clear this backlog, which is currently in the mobilisation phase.	The issue has been identified and action taken to rectify it. Outsourcing the historical backlog leaves greater administrative capacity to calculate current cases, mitigting the risk of recurrence. This has therefore been judged as not necessary to report to the Pensions Regulator.		Not reported to The Pensions Regulator.		

REPORT TO:	**Pension Committee** **25 May 2021**
SUBJECT:	**Pension Fund Medium Term Business Plan 2021/24**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

1.1 The Committee are asked to comment on and agree to the recommended Medium Term Business Plan 2021/24.

2. EXECUTIVE SUMMARY

2.1 This report presents to the Committee a draft Business Plan for the Fund for financial years 2021/22 to 2023/24 attached as Appendix A. It invites their comments and requests their agreement to the Plan.

3 DETAIL

3.1. At their meeting on 15 September 2020 the Committee considered guidance from The Pensions Regulator and CIPFA, as highlighted by Aon Hewitt in their Governance Review of the Fund, recommending that "a medium term business plan should be created for the pension fund." They agreed to note the draft "Medium Term Business Plan 2020-2023" as presented to them.

3.2 At the request of various members of the Committee officers confirmed that:

- the impact of the McCloud judgement on the administration of the Fund was being assessed and would be incorporated into the Business Plan;
- outstanding actions to implement recommendations of the Aon Hewitt Governance Review of the Fund would be incorporated into the Business Plan;
- with the development of the "Code of Transparency" additional information on investment costs would become available for inclusion in the Business Plan and budget.

3.3 Although the existing Business Plan was agreed only eight months ago it is more appropriate to seek the Committee's agreement around the start of each financial year. Therefore attached as Appendix A is a draft Medium Term Business Plan 2021-24 on which the Committee are invited to comment and agree subject to any amendments they wish to make.

4 **FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

4.1 There are no financial or risk assessment considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

5. LEGAL CONSIDERATIONS

5.1 The Pension Committee's role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations ("the Regulations") and the other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

5.2 The Committee is asked to consider the appended 'Medium Term Business Plan' which is drafted in accordance with the guidance from the Pensions Regulator and CIPFA. The Business Plan sets out the aims and objectives of the Fund and provides an overview of its key activities over the medium term until 2023/24.

5.3 This follows on from the report that was presented to the Committee in September 2020.

5.3 There are no legal implications arising from the recommendations within the report that requires additional comment.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

6. HUMAN RESOURCES IMPACT

6.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

7. EQUALITIES IMPACT

7.1 There are no equalities impacts arising from this report.

8. ENVIRONMENTAL IMPACT

8.1 There are no environmental impacts arising from this report.

9. CRIME AND DISORDER REDUCTION IMPACT

9.1 There are no crime and disorder impacts arising from this report.

10. DATA PROTECTION IMPLICATIONS

10.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Appendix A: Medium Term Business Plan 2021-24

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CROYDON PENSION FUND

Medium Term Business Plan 2021-24

Croydon Pension Fund

5A Bernard Weatherill House

8 Mint Walk

Croydon CRO 1EA

CONTENTS

1. INTRODUCTION

1.1 The London Borough of Croydon (the Council) is the Administering Authority of the Croydon Pension Fund (the Fund), responsible for the management of the Local Government Pension Scheme (the Scheme) in its area. The Fund is one of about ninety funds in the national Scheme offering benefits on a career average basis and funded by its constituent employers, members and investment income.

2. PURPOSE OF THE BUSINESS PLAN

2.1 Although not specifically required under Scheme regulations, it is recommended in guidance and considered best practice to have a business plan setting out the future direction of the Fund.

2.2 The Business Plan sets out the aims and objectives of the Fund and provides an overview of its key activities over the medium term. It includes a review of important developments during 2020/21, the work plan of the Committee, the Board and officers for 2021/22 – 2023/24 and the planned training activity as set out in the Fund training plan. It also includes the estimated financial position over the three years' up to 2023/24.

2.3 The Plan is reviewed and updated annually.

3. GOVERNANCE AND MANAGEMENT

3.1 The Council has delegated responsibility for the governance and management of the Fund to the Pension Committee and the S151 Officer. In the Council's Constitution the Purpose of the Committee is defined as:

> *to discharge the responsibilities for Croydon Council in its role as lead authority for the administration of the Croydon Pension Fund*

3.2 The Committee receives appropriate advice from the S151 Officer, the Fund Actuary, its Investment Adviser and other officers and advisers as necessary.

3.3 Since 2015 a Local Pension Board has been in place the purpose of which, as laid down in Regulations, is

> *….to assist the Administering Authority in its role as a scheme manager of the Scheme. In particular to assist the Administering Authority:*
>
> 1. *to secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and*

2. *to ensure the effective and efficient governance and administration of the Scheme.*

3.4 Under the “pooling” regulations the Fund, along with all other London borough funds, is a member of the London Collective Investment Vehicle (CIV). Over the next few years it will continue to seek opportunities to transfer investments to the CIV in order to achieve reductions in investment management costs. It will continue to hold the CIV to account through its role as a shareholder.

3.5 At the request of the Pension Board, in 2015, the Fund commissioned a Governance Review from its independent Governance Adviser, Aon Hewitt Limited. During the spring and summer of 2016 the Board and Committee considered the Report and accepted the Adviser’s recommendations. The Board agreed an action plan to plot progress in their implementation. In 2019 Aon Hewitt were invited to carry out a further Review to assess progress against their earlier recommendations. The Review and associated action plan was considered by the Board and Committee during late 2019 and the early part of 2020 and the implementation of the recommendations plays a significant part in the workplan for 2021/22 and subsequent years.

3.6 Apart from payroll, all administration services are carried out in-house by Council staff.

4. AIMS, PURPOSES AND FUNDING OBJECTIVES

4.1 As set out in the Funding Strategy Statement agreed in March 2020:

The aims of the Fund are to balance:

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

The purposes of the Fund are to:

- receive the proper amount of contributions from employees and employers, and any transfer payments;
- invest the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and

- use 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 funding objectives are:

- 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;

- 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.

5. STATISTICS

5.1 Key statistics as at 31 March 2021 were as follows:

- Assets of the Fund were £1,489m (as at 31 December 2020) predominantly invested in equities, bonds, property, infrastructure and private equity;
- The Fund was 88% funded (based on 31 March 2019 data);
- The Fund had approximately 100 contributing employers;
- Approximately 10,000 members were contributing to the Fund;
- Approximately 11,000 former employees had their benefits deferred;
- Approximately 8,400 members were in receipt of a pension;
- Benefit payments in the previous year totalled £56.1m;
- Contributions from members in the previous year were £14.7m; and
- Contributions from employers in the previous year totalled £54.7m.

6 REVIEW OF 2020/21

6.1 At the time of writing the impact of the Coronavirus crisis on the Fund is unclear and may never be fully understood. It was discussed by the Committee at their meeting in March 2020 and caused two of the five meetings during 2020/21 to be cancelled. Its financial impact will be seen in the Annual Report and Accounts for 2019/20 and 2020/21. Partly because of its effect the Annual Report and Accounts for 2019/20 remain subject to audit.

6.2 Nevertheless, most of the normal routines were successfully completed including the regular monitoring of investment and administration performance, the distribution of annual benefit statements and the consideration of various policy statements and the Risk Register.

Specific projects included:

- Investment in “Sustainable Equity Exclusion Fund”
- Adoption of a Medium Term Business Plan
- Review of Breaches of the Law Policy and returns
- Consideration of independent Governance Review Action Plan
- Consideration of implications of Exit Payment Cap
- Review of Governance Policy and Compliance Statement

6.3 On 15 October 2020 the Pension Board received a report, including a report from the Fund Actuary, analysing the practical implications of the McCloud judgement.

7. WORK PROGRAMME

7.1 The work programme for Members, officers and advisers envisaged over the next three years will be along the following lines.

	2021/22	**2022/23**	**2023/24**
Governance			
Review implementation of Governance Action Plan	Ongoing	Ongoing	Ongoing
Produce Fund Accounts	April to September	April to September	April to September
Produce Fund Annual Report	July to September	July to September	July to September
Produce Pension Board Annual Report	July to October	July to October	July to October
Review Business Plan	March	March	March
Review Governance Policy and Compliance Statement		September	

Review Governance Best Practice Compliance Statement	March	March	March
Review Communications Policy		September	
Review Administration Strategy	September		March
Review Internal Disputes Resolution Procedure		January to March	
Review Conflicts of Interest Policy	September		March
Review Breaches of the Law Policy / Procedure			September
Record and report breaches of the law	Ongoing	Ongoing	Ongoing
Review Administering Authority Discretionary Policy	September		March
Review Risk Management Policy and Strategy		March	
Maintain Risk Register	Ongoing	Ongoing	Ongoing
Review Knowledge and Skills/ Training Policy		January to March	
Review and deliver training programmes	Ongoing	Ongoing	Ongoing
Review budget including London CIV costs	March	March	March
Review Fund Actuary contract	September		
Review Governance Consultancy contract	September		
Monitor performance of Investment Adviser against agreed strategic objectives	Ongoing	Ongoing	Ongoing
Respond to legislative changes	As required	As required	As required
Respond to reports of Scheme Advisory Board and The Pensions Regulator	Ongoing	Ongoing	Ongoing
Review staffing numbers and structure	Ongoing	Ongoing	Ongoing

Funding			
Triennial valuation consultations and calculations		May to December	
Consultations and calculations for employers rates arising from triennial valuation		November to December	
Triennial valuation certificate issued		March	
Prepare Funding Strategy Statement		November to March	
Interim valuation	December		
Provision of actuarial valuation information for review by Government Actuary's Department	As required	As required	As required
Investments			
Review Investment Strategy Statement			April
Produce performance review reports for Committee	Quarterly	Quarterly	Quarterly
Carry out asset allocation review and investigate new investment vehicles	Ongoing	Ongoing	Ongoing
Develop Environmental, Social and Governance investment policy	Ongoing	Ongoing	Ongoing
Meet investment managers in rotation	Ongoing	Ongoing	Ongoing
Comply with "pooling" requirements	Ongoing	Ongoing	Ongoing
Review savings achieved by CIV	July	July	July
Implementation of SAB Code of Transparency and analysis of investment costs	Ongoing	Ongoing	Ongoing

Administration			
Triennial valuation – consultation with and results to employers		May to February	
Review of Employer (admission/cessation/ bulk transfer) Policy	September		
Bulk transfers, academy conversions and new admitted bodies – provision of data for employers	Ongoing	Ongoing	Ongoing
Implement implications of McCloud judgement	As required	As required	As required
Review Record Management Policy			March
Reporting and Monitoring Contributions	Quarterly	Quarterly	Quarterly
FRS102 – provision of data for employers	July to September	July to September	July to September
Administer pension increase	January to March	January to March	January to March
Issue Annual Benefit Statement	May to August	May to August	May to August
Monitor Key Performance Indicators	Ongoing	Ongoing	Ongoing
Produce Data Improvement Plan			January to March
Organise and facilitate Employers' Forum	Quarterly	Quarterly	Quarterly
Focus on information technology efficiencies	Ongoing	Ongoing	Ongoing
Review any service areas failing to meet agreed performance standards	As required	As required	As required
Clear backlog of deferred pensioners work	May to March		
Organise voting for Pensioners' Representatives on Pension Committee	As required	As required	As required
Make appointments to fill any vacancies arising on Pension Board	As required	As required	As required

Auto re-enrolment	January		
Roll-out of I-connect project	Ongoing		
Develop use of Employer Relationship Management software	Ongoing		
Publicise upgrade of Members Self Service	August		

7.2 Progress on relevant parts of the Programme will be regularly reported to meetings of the Committee and Board.

7.3 Programmes of work arising from the Business Plan specific to the Committee and the Board will be presented to the two bodies as an updated Forward Plan.

8. INVESTMENTS

8.1 As at the end of December 2020 the Fund had £1,489m assets under management by 15 different fund managers investing in equities, bonds, property, infrastructure and private equity.

8.2 The Fund’s asset allocation is shown in the table below.

Fund Manager	Managed by CIV	Value at 30 Dec 2020	Actual Allocation	Strategic Allocation
		£m	%	%
Equities				
LGIM	Counts towards allocation	586.5		
RBC	Yes	75.6		
Total		**662.1**	**44.5**	**40.0**
Fixed Interest				
Aberdeen Standard		144.9		
Wellington		75.0		
PIMCO	Yes	95.0		
Total		**314.9**	**21.2**	**20.0**
Property				
Schroders		126.3		
M &G		62.0		
Total		**188.3**	**12.7**	**16.0**
Private Equity				
Pantheon		66.1		
Knightsbridge		40.2		
Access		17.1		
North Sea Capital		8.0		
Total		**131.4**	**8.8**	**10.0**
Infrastructure				
Equitix		82.8		
Temporis		29.5		
GIGM		21.0		
Access		27.0		
I Squared		17.5		
Total		**177.8**	**11.9**	**14.0**
Cash		**14.1**	**0.9**	**0.0**
TOTAL		**1,488.6**	**100.0**	**100.0**

9. CASHFLOW

9.1 The table below summarises the relatively predictable items of income and expenditure included in the Fund Annual Accounts. The data suggests that in the medium term the Fund's predictable income will comfortably exceed its expenditure. The large increase in the actual surplus in 2020/21 is due to a lump sum of £32.2m being received in 2016/17 in lieu of three annual payments of £11.8m in the subsequent three years and the amount in 2020/21 reverting to a more normal annual level.

	2019/20 Actual	2020/21 Forecast Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000
Contributions receivable	52,208	69,373	70,000	71,000	71,000
Benefits payable	-46,540	-46,500	-47,000	-47,500	-48,000
Management expenses*	-11,425	-13,500	-14,030	-14,680	-15,090
Investment income	9,425	8,000	8,000	8,000	8,000
Net income	**3,668**	**17,373**	**16,970**	**16,820**	**15.910**

*See table in paragraph 10.1 below

There are several items within the Fund Accounts which have a significant impact on the financial standing of the Fund but which cannot be estimated with confidence. As an indication, some of these are detailed below for the years 2019/20 and 2020/21.

	2019/20 Actual	2020/21 Forecast Actual
	£'000	£'000
Individual transfers in from other funds	14,179	6,770
Individual transfers out to other funds	-10,769	-6.840
Commutations, refunds and lump sum retirement and death benefits	-10,310	-9.550

10. RESOURCES

Finance

10.1 The following table provides actuals and estimates of the Fund Management Expenses over the five years from 2019/20.

	2019/20 Actual	2020/21 Forecast Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000
Administration					
System fees	357	360	370	380	390
Staff costs	820	830	840	850	860
Payroll administration	499	510	510	510	510
Total	**1,676**	**1,700**	**1,720**	**1,740**	**1,760**
Oversight and Governance					
Staff costs	575	545	555	565	575
Actuarial costs (net)	238	80	80	200	80
External audit fees	25	25	25	25	25
Memberships	10	10	10	10	10
Investment and governance advice	147	100	100	100	100
Other (net)	46	40	40	40	40
Total	**1,041**	**800**	**810**	**940**	**830**
Investment Management					
Management fees	8,607	10,900	11,400	11,900	12,400
Custodian fees	101	100	100	100	100
Total	**8,708**	**11,000**	**11,500**	**12,000**	**12,500**
TOTAL	**11,425**	**13,500**	**14,030**	**14,680**	**15,090**

Staff

10.2 The Fund has the following staffing resource available to deliver the Plan

	FTE	Vacancies
Investment & Treasury	6	2
Governance & Compliance	3	1
Pensions Administration	15	2
Pensions Technical Support	2	0

10.3 In order to make the optimum contribution to the delivery and administration of Fund services staff have:

- Development plans and key objectives set on an annual basis, linked to outcomes and objectives set out in this Business Plan
- Regular one-to-one meetings to review progress and to identify development issues
- Opportunities to put forward ideas and suggestions to help to shape the future development of the service

11. TRAINING AND DEVELOPMENT

11.1 The CIPFA Knowledge and Skills Framework and a Knowledge and Skills / Training Policy have been adopted by Fund.

11.2 Members of both the Pension Committee and the Board and officers are given access to a range of opportunities to develop their skills in keeping with the Framework. These include, specifically, on-line programmes provided by Aon Hewitt and Hymans Robertson and events hosted by the Local Government Association.

11.3 Training opportunities are provided at meetings of the Committee and Board.

11.4 The Fund is a member of the CIPFA Pensions Network which gives officers access to an extensive programme of events, training, weekly newsletters and documentation including briefing notes on the latest topical issues. Officers attend quarterly forum meetings with peers from other London boroughs which provide further access to opportunities for knowledge sharing and benchmarking data.

11.5 Officers also attend seminars arranged by fund managers and other third parties who specialise in public sector pensions. Any relevant sessions are shared with the Committee and Board members.

12. KEY POLICY DOCUMENTS

12.1 Key policy documents which support the Business Plan and, in turn, are supported by it which can be found on the Fund’s website include:

- Annual Report and Accounts
- Triennial Valuation Report
- Investment Strategy Statement
- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Administration Strategy
- Risk Management Strategy and Risk Register
- Knowledge and Skills Policy

- Conflicts of Interest Policy
- Breaches log
- Discretions Policy Statement
- Record Management Policy
- Key Performance Indicators

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REPORT TO:	**PENSION COMMITTEE** **25 May 2021**
SUBJECT:	**FSS updates - Exit Credit and Employer Flexibilities Regulatory Amendments.**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: This is a matter for the Pension Committee.	
FINANCIAL SUMMARY: This report relates to new flexibilities relating to contribution rates levied on Scheme employees and options to be more flexible in the event of an employer leaving with a deficit.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

1.1 The Committee is asked to:

1.2 Note. the draft changes to the Funding Strategy Statement;

1.3 Instruct officers to undertake an employer consultation on these changes.

2 EXECUTIVE SUMMARY

2.1 This report considers changes introduced to the LGPS in respect of exit credits and the option for a contribution review. The report suggests how these changes could be reflected in the Funding Strategy Statement.

3 BACKGROUND

3.1 In May 2019, the Ministry for Housing, Communities and Local Government (MHCLG) launched its consultation “Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk”. The consultation sought views in the following areas:

a) Changes to the LGPS local fund valuation cycle;
b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations;
c) Proposals for flexibility around employer cessation debts;
d) Proposals for policy changes for payments of employer exit credits; and
e) Potential changes to employers required to offer LGPS membership.

3.2 At the date of writing, there has been no update on changes to the valuation cycle proposals (a) or to the employers who are required to offer LGPS access (e). The outcome of the exit credit consultation (d) was published in February 2020 and the subsequent regulation changes came into force from 20 March 2020. A response to items (b) and (c), together known as “employer flexibilities”, was published in August 2020 and the subsequent regulation changes came into force from 23 September 2020.

3.3 On 2 March 2021 MHCLG published statutory guidance to support the application of the new regulations. This included the expectation that LGPS Fund’s would prepare and maintain policies in relation to items (b), (c) and (d). Therefore, working alongside the Fund’s Actuary, officers have considered the new regulations and guidance to apply the policy updates required to the Fund’s Funding Strategy Statement, such that:

- A consistent approach is taken between employers and over time; and
- The interests of all parties are taken into account.

3 DETAIL

Funding Strategy Statement (FSS)

3.4 Under the Regulations, all LGPS funds have a statutory obligation to produce a Funding Strategy Statement (“the FSS”). The Fund reviews the FSS at least every three years alongside the formal actuarial valuation but also from time-to-time when required. The current version of the FSS was approved by this Committee in March 2020 following updates made as part of the 2019 formal valuation.

Exit credits

3.5 Following the MHCLG consultation (above), the LGPS Regulations 2013 were amended from 20 March 2020 to address issues arising as a result of previous changes requiring Administering Authorities to pay exit credits when an employer ceased while in surplus (on their respective exit valuation basis). Previously, the Fund’s Actuary would determine the level of any exit credit to be paid. However, the updated Regulations, while still requiring the Actuary to carry out an exit valuation to determine the amount of any surplus, place the responsibility for determining the level of any exit credit on the Administering Authority, having considered various factors.

3.6 When applying these new discretionary powers, the Regulations require the Fund to take account of:

- The extent to which the employer’s assets are in excess of its liabilities – this is not contentious for the Fund as our actuary tracks each employer’s assets and liabilities (unless a “pass-through” arrangement is in place).

- The proportion of the excess of assets which has arisen because of the value of employer’s contributions – the initial regulations had unintentionally enabled some short-term employers to leave funds with large exit credits (due mainly to strong growth on the assets that were transferred from letting authorities). In some cases, across the LGPS, exit credits have been large and have even dwarfed any contributions made by the contractor. This amendment now allows the Fund to consider whether or not to restrict future exit credits to growth only on the money paid by employers.

- Any representations made by the exiting employer and the letting authority/guarantor – the intention behind this is to allow any risk-sharing arrangements that sit behind an employer's participation to be taken into account. The Government has said however that there is no onus on the Fund to 'enquire into the precise risk sharing arrangements adopted'. Instead, it will be left to the employer and letting authority/guarantor to explain why the arrangements made by them make payment of an exit credit more or less appropriate. There is a risk that the Fund could get caught up in the middle of arguments between employers over commercial terms that were agreed outside the Fund, leading to higher actuarial, legal and internal management costs, and of course delays to the settlement of cessation valuations. It is worth noting that the amending regulations force the Fund to notify how it intends to deal with the exit credit to both parties ahead of any payment.

- Any other relevant factors – this gives a lot of discretion to the Fund to consider whatever factors it feels is relevant in its decision. The Fund will need to ensure that it applies this discretion consistently over time and provide justification to the employer and letting authority/guarantor about why any factors have been considered.

3.7 In addition, the amendments have extended the maximum time period by which an exit credit must be paid to an employer from three to six months.

Changes to FSS

3.8 Working alongside the Fund's Actuary, the FSS has therefore been updated to allow for the Fund's policy on applying these new discretions on determining the payment of exit credits. The following summarises the proposed approach:

- exiting employers should be assessed on a case-by-case basis, and be subject to the principles set out in the revised FSS in order to consistently apply the discretion in assessing the amount of and in paying any exit credit.

- In the first instance, the onus is on the exiting employer (and any letting/guaranteeing employer) to provide representations on how they consider any exit credit should be treated.

- However, in all cases, the Fund considers that the maximum value of any exit credit is the surplus identified in the Fund Actuary's exit valuation on the exit basis appropriate to the cessation event/employer.

- The approach differentiates by the type of body involved. This is a result of Admission bodies being able to terminate their participation in the Fund at any time. On the other hand, Scheduled bodies do not have this ability.

- In general, where an admission agreement began prior to 14 May 2018 (the date when exit credits became allowable under the Regulations), the Fund will not pay an exit credit as the potential for an exit credit would not likely have been priced into tenders for service.

- Where guarantees, pass-through and risk sharing agreements are clearly set out in admission terms, the Fund will reflect these in its determination. In particular, no exit credit will be payable to any admission body which participates in the Fund via a pass through agreement.

- Where pass through or risk sharing agreements are not applicable, the Fund will generally limit any exit credit to the value of employer contributions paid over the employer's contract allowing for investment returns on those contributions. The Fund will ask the actuary to carry out this calculation alongside the cessation valuation. (Noting that a proportionate approach to this calculation may have to be taken when an employer has participated in the Fund over a long period and historic contribution information may not be readily available.)

Changes to FSS

3.9 Working alongside the Fund's Actuary, the FSS has therefore been updated to allow for the Fund's policy in applying these new employer flexibilities. These proposed changes are summarised below:

- **Contribution review -** In general, the draft FSS updates consider an amendment to contribution rates between valuations only as a result of significant changes to the liabilities or covenant of an employer. While the Fund would consider requests from employers to review contributions, it is expected that the reason for the request is a material change in covenant or significant restructure which impacts their membership and consequently liabilities in the Fund.

- **Exit arrangements -** despite the updates, for an employer ceasing with a deficit, the normal policy within the draft FSS remains the requirement to immediately pay any debt. Any variation away from this would be considered in the light of this benchmark and would primarily need to be in the interests of the Fund. However, the FSS updates allow the Fund to be mindful of the broader objectives and finances of the employer when considering a more flexible exit arrangement. For example, a flexible approach may in some cases still be appropriate where the employer covenant is weak as it may allow the employer to avoid building up further liabilities. When entering into any flexible exit arrangement, a continual but proportionate review of the conditional elements will be required to ensure it remains appropriate and in the best interests of all parties.

3.10 Appended to this report is an updated version of the Funding Strategy Statement incorporating these proposed changes.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's Scheme Actuary in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the management of the Council's Pension Fund.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Pension Committee's role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme (LGPS) Regulations ("the Regulations") and the other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

6.2 The Committee is asked to note the changes to the funding strategy brought about by changes to both the Regulations in September 2020 and Guidance produced by the MHCLG in March 2021.

6.3 These changes relate to the strategy being updated to address the new discretionary powers that Administering Authorities have when paying exit credits. The updated Regulations place the responsibility for determining the level of any exit credit on the Administering Authority itself, upon the consideration of various factors.

6.4 In addition to the report outlining the relevant considerations and consequential changes to the strategy, the amended strategy has also been appended highlighting the changes made to it.

6.5 There are no further legal implications arising from the recommendations within the report that requires additional legal comment.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed.

8. HUMAN RESOURCES IMPACT

8.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

9. EQUALITIES IMPACT

9.1 There are no equalities impacts arising from this report.

10. ENVIRONMENTAL IMPACT

10.1 There are no environmental impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no crime and disorder impacts arising from this report.

12. DATA PROTECTION IMPLICATIONS

12.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?**

NO

12.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:
Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:
None

APPENDICES:
London Borough of Croydon Pension Fund Funding Strategy Statement April 2021 updated from March 2020.

HYMANS ROBERTSON

London Borough of Croydon Pension Fund

Funding Strategy Statement

April 2021

Contents

PUBLIC SECTOR

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Croydon Pension Fund ("the Fund"), which is administered by Croydon 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 1 April 2020.

1.2 What is the London Borough of Croydon 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 London Borough of Croydon Pension Fund, in effect the LGPS for the Croydon area, to make sure it:

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

- the LGPS Regulations;

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that 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 Nigel Cook in the first instance as follows:

Nigel Cook (Croydon Treasury and Pensions)
nigel.cook@croydon.gov.uk
Direct line: 020 8726 6000 (ext 62552)

2 Basic Funding Issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

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

2.2 What is each employer's contribution rate?

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

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

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

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

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

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

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

.

2.5 How is a funding level calculated?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this has been achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

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

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

2.8 When will the next actuarial valuation be?

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

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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	**Local Authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to "gilts exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years – subject to security / covenant check	Future working lifetime – subject to security / covenant check	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	% of pay	% of pay	% of pay	Monetary amount	% of pay or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over the remaining contract term		Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	75%	75%	75%	75%	75%	55-75% (depend on outstanding contract term)
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None
Review of rates – Note (f)	Review of rates will be carried out in line with the Regulations and as set out in Note (f)					Review of rates will be carried out in line with the Regulations and as set out in Note (f) Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: 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 calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

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

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), Croydon Council's contributions will be kept at current 2019/20 levels in 2020/21 then reduced by 0.5% of pay per annum in 2021/22 and 2022/23, with future increases and decreases limited to 1.0% of pay per annum thereafter. This stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

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

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will be collected as a monetary amount.

Note (e) (Likelihood of achieving funding target)

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

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

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

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

Note (f) (Regular Reviews) Under the Regulations 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 consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;

- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership). The employer would be expected to provide evidence to back up its request for a review e.g. report and accounts, financial forecasts and budgets. The Administering Authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer's circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation. It should be noted that any review may require increased contributions. The Administering Authority may need to consult other fund employers e.g. where they act as guarantor, as part of a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

Note (g) (New Academy conversions)

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

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

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

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

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

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

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

Note (h) (New Admission Bodies)

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

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

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

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

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

Note (j) (Exiting the Fund)

Notwithstanding the provisions of the Regulations and any Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an employer (when applicable to the type of body):

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

On cessation, in the absence of a deferred debt arrangement, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

<u>Payment of cessation debt</u>

Where there is a deficit, payment of this amount in full would normally be sought from the employer. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified. However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

<u>Consideration of surplus / exit credit</u>

Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider:

(i) the extent of any surplus,

(ii) the proportion of surplus arising as a result of the employer's contributions,

(iii) any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee (or some other form of employer assistance/support) and

(iv) any other factors the Administering Authority deem relevant.

The below sets out the general guidelines that the Fund will consider when determining the amount of an exit credit payable to an exiting employer in line with Regulation 64, depending on employer's participation conditions. 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. These considerations may result in a determination that would be different if the below guidelines were rigorously adhered to. In all cases, the Fund will not be bound by the guidelines, and will make its decision on a discretionary basis.

Consideration of surplus / exit credit - Admission bodies

a) It is expected that no exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018. Prior to this date, the payment of an exit credit was not permitted under the Regulations and therefore contracts were entered into with no expectation that an exit credit would be paid, and therefore priced accordingly. In this circumstance, no exit credit will be payable.

   If the contract terms were revised following the introduction of exit credits and a new price agreed on the understanding that exit credits were now permitted, an exit credit may be payable. This must be made clear in the representations to the Fund.

b) No exit credit will be payable to any admission body who participates in the Fund via the "fixed contribution rate" (or pass through), approach, as set out under "Note (i) (New Transferee Admission Bodies)".

c) There are a number of other types of possible risk sharing arrangements which are or could be in operation within the Fund (for example, a "Pooling" arrangement as set out under "Note (i) (New Transferee Admission Bodies)". In these circumstances, the Fund will make an exit credit payment in line with the admission terms which detail the ownership of exit credits/cessation surpluses.

d) The Fund will make an exit credit payment in line with any contractual or risk sharing agreement 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 each 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 and within one month of the admission body ceasing participation in the Fund.

e) If there is any dispute from either party with regards to interpretation of contractual or risk sharing agreements as outlined above, the Fund will withhold payment of the exit credit until such disputes are resolved.

f) The Fund will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.

g) Where a guarantor arrangement (or some other form of employer assistance/support) 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.

h) 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 difference between employer contributions paid and the size of any cessation surplus.

i) The decision of the Fund is final in the interpreting how any arrangement described above applies to the value of an exit credit payment.

j) If an admitted body leaves on a gilts exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

Consideration of surplus / exit credit - Scheduled bodies and resolution bodies

a) If a scheme employer or resolution body becomes an exiting employer due to a reorganisation, merger, transfer or take-over, then no exit credit will normally be paid.

b) If a scheme employer or resolution body exits on a gilts exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

Consideration of surplus / exit credit - General

a) The Fund will advise the exiting employer as well as any letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

b) 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.

c) The final decision will be made by the Pension Committee (delegated to the Head of Pensions and Treasury where appropriate), in conjunction with advice from the Fund's Actuary and/or legal advisors.

d) 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 with appropriate parties, and its decision in these instances is final.

e) 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. 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.

<u>Allowance for McCloud on cessation</u>

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

<u>Actuarial basis on cessation</u>

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

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

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

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

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

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

Deferred Debt Agreement ("DDA") alternative to immediate cessation

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into a written agreement with the employer to defer their obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The employer must meet all active employer requirements and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the deferred debt agreement.

The Administering Authority will consider deferred debt agreements in the following circumstances:

- The employer requests the Fund consider a deferred debt agreement;
- The employer is expected to have a deficit if a cessation valuation was carried out;
- The employer is expected to be a going concern; and
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the employer's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;

- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement, and correspondence on any ongoing contribution and security requirements.

A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:

- the employer enrols new active Fund members;
- the period specified, or as varied, under the deferred debt agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Employer;
- the Administering Authority serves a notice on the Employer that the Administering Authority is reasonably satisfied that the Employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund actuary assesses that the Employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. Employer is now largely fully funded on their cessation basis);
- the Fund actuary assesses that the Employer's value of liabilities has fallen below an agreed *de minimis* level, if the employer becomes an exiting employer on the calculation date; or
- The Employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Employer pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement, the Employer will become an exiting employer and a cessation valuation will be completed in line with this FSS.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics.

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April

2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

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

3.8 Ill health risk management

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

The Administering Authority therefore has put in place an approach to help manage ill health early retirement costs by obtaining an external insurance quotation on behalf of employers.

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

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

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

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is 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 from time to time, i.e. changes in the relationship between asset values and the liabilities value.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

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

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

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

Relative considerations include:

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

Absolute considerations include:

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

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

Appendix

Appendix A – Regulatory framework

Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers in January 2020 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 21 January 2020 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at http://www.croydonpensionscheme.org/
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;

- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

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

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.croydonpensionscheme.org/

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

1 operate the Fund as per the LGPS Regulations;

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

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

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

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

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

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

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

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

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

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

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

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

B2 The Individual Employer should:-

1 deduct contributions from employees' pay correctly;

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

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

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

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

B3 The Fund Actuary should:-

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

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

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

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

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

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

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

B4 Other parties:-

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

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

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

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

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

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

Appendix C – Key risks and controls

Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
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).
Effect of possible asset underperformance as a result of climate change	The Fund invests its assets in line with Responsible Investment beliefs and guidelines. The impact of different climate change scenarios on future funding positions was modelled at the 2019 valuation, with the risk reflected via the use of prudence within each employers "likelihood of achieving target" (see section 3).

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:

Risk	Summary of Control Mechanisms
	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).

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 (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

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

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

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

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

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

Employer contributions are normally made up of two elements:

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

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

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

D2 How is the Primary contribution rate calculated?

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

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

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

D4 What affects a given employer's valuation results?

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

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

D5 How is each employer's asset share calculated?

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

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysingmovements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

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

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

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

The Fund is satisfied that this new 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.

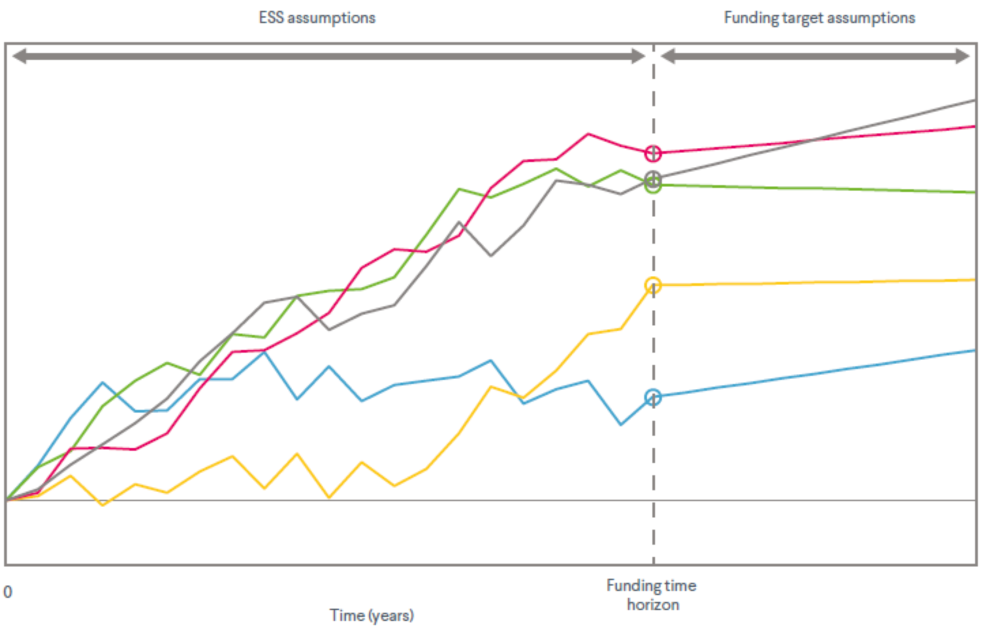
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

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

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



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

E2 What assumptions are used in the ESS?

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

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

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

E3 What assumptions are used in the funding target?

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

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

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

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

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.4% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

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

a) Salary growth

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

This is a change from the previous valuation, where the assumption was CPI plus 0.5% per annum. 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% per annum lower than RPI (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

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

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

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

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

d) General

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

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

Appendix F – Glossary

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

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

REPORT TO:	**PENSION COMMITTEE** **25 May 2021**
SUBJECT:	**Croydon Pensions Administration Team Key Performance Indicators for the Period** **1 January 2021 to 31 March 2021**
LEAD OFFICER:	**Vicki Richardson** **Head of HR & Finance Service Centre**
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: Sound Financial Management: The Pension Committee is responsible for the effective administration of the Local Government Pension Scheme. These Key Performance indicators provide a measure of how well that administration functions.	
FINANCIAL IMPACT Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties.	

1. RECOMMENDATIONS

The Committee is asked to:

1.1 Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.

2. EXECUTIVE SUMMARY

2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the three month period up to the end of March 2021.

3. DETAIL

3.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. This report has been developed using the guidance published by CIPFA (Administration in the LGPS: A Guide for Pensions Authorities) and is reporting to the committee on the LGPS administration performance for the period 1 January 2021 to 31 March 2021. The indicators cover legal deadlines; team performance targets, case levels and take up of member self-service and the indicators and performance against these are detailed more fully in Appendix A to this report.

Commentary

3.2 During January there was an extraordinary demand on the pension administration team to provide retirement estimates due to a Council wide voluntary severance scheme during December and January. Nearly 200 estimates were provided in January 2021 within target timescales, which was a significant achievement. As a result of the initial estimates in January final estimates have needed to be provided to those who are progressing with opting for severance which has further impacted the team during this quarter.

3.3 As priority was given to the voluntary severance scheme to ensure that scheme members had timely information at this critical time, resources were diverted away from other case types. In addition to the retirement estimates the team have largely met legal deadlines for processing retirements and deaths which are also of key importance to scheme members. However there has been an impact on processing other case types within target, such as new starters and deferred benefit calculations for leavers.

3.4 At end March 2021 there were 6166 workflow tasks outstanding which a decrease on the previous month. 42% of these outstanding tasks relate to a historical backlog of deferred benefit cases. Hymans Robertson have been contracted to provide third party administration services to clear this backlog. These cases have now been passed to Hymans who are undertaking analysis of the cases and completing some sample calculations for the Croydon pension team to verify. Further updates will be provided as the project progresses.

3.5 Due to resources needing to be redirected the number of outstanding deferred benefit cases for leavers has increased over the last few months, increasing from 685 at end December to 846 at end March. Changes have been made within the administration team to ensure a resource is allocated to process leaver calculations on a daily basis. Achievement in the number of cases will be monitored for the next 3 months at which point performance will be reviewed and alternative resourcing options considered if necessary.

3.6 As at end March there are 286 new starter cases outstanding, compared with 814 at end December. Work has been undertaken by our pension support officer to start clearing outstanding new starters. A further pension support officer has been recruited who will be focussed on processing new starters for next 6 months to clear the remainder outstanding and ensure we keep on top of ongoing demand.

3.7 We had successfully filled the remaining vacancies for a Senior Pension Officer and Pension Support Officer. However we have had further resignations over the last week for Senior Pension Officer and Pension Officer and we will seek to fill all of these roles through further recruitment exercise.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the key performance indicator report which forms the basis of Appendix A.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report. The team resourcing issues are being monitored with timely approvals sought for recruitment to vacant posts.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to statistical information about the administration of the Local Government Pension Scheme.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

Victoria Richardson - Head of HR & Finance Service Centre
ext. 62460.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, March 2021

Croydon Pensions Admin Team

Performance Report

March 2021

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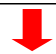
Contents

Reference Key Table

Direction of travel reference table	
	100% achieved against target performance improved
	100% achieved on target and performance static
	>90% achieved against target and performance improved
	>90% achieved against target and performance static
	>90% achieved against target and performance declined
	<90% achieved against target and performance improved
	<90% achieved against target and performance static
	<90% achieved against target and performance declined

Legal Deadlines

Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Direction of Travel	Comments
		January 2021		February 2021		March 2021			
Send a notification of joining the LGPS to a scheme member	Two months from the date of joining the scheme or earlier if within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	156	89.10%	197	81.22%	183	49.18%		Initiative being undertaken by pension support officer to clear new starters. As at end March there were 286 outstanding new starters, compared with 814 at end December. A further pension support officer has been recruited who will focus soley on new starters for the next 6 months to clear outstanding cases and ensure we keep on top of ongoing demand for processing new starters.
Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases	As soon as practicable and no more than two months from the date of notification (from employer or scheme member)	14	7.14%	33	24.24%	44	31.25%		Historical backlog is impacting performance. Contract has now been awarded to Hymans Robertson to provide administration services to clear this backlog. The cases have now been passed over to Hymans who are undertaking analysis of the cases and completing some sample calculations for the Croydon pension team to verify.
Inform a scheme member of their calculated benefits (refund or deferred) – new cases	As soon as practicable and no more than two months from the date of notification (from employer or scheme member)	16	68.75%	55	72.73%	123	61.79%		Due to resources needed to be redirected to other priority areas of work performance has been impacted. Resources are now being directed to leaver calculations on a daily basis. Achievement in the number of cases will be monitored for the next 3 months. In addition there are some process changes are being investigated as leaver tasks are being erroneously created when an employee changes jobs, rather than leaves which is artificially inflating the number of outstanding tasks.

Legal Deadlines

Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Direction of Travel	Comments
		January 2021		February 2021					
To process and pay a refund	Two months from the date of request	10	100%	16	100%	14	100%	→	
Obtain transfer details for transfer in, calculate and provide quotation to member	Two months from the date of request	3	100%	1	100%	4	100%	→	.
Notify the amount of retirement benefits	One month from the date of retirement if on or after normal pension age or two months from the date of retirement if after normal pension age	45	100%	44	97.73%	1	100%	↑	
Provide a retirement quotation on request	As soon as practicable but no more than two months from the date of request unless there has already been a request in the last 12 months	196	100%	65	100%	74	100%	→	During January there was an extraordinary increase in demand due to Croydon Council severance scheme.

Legal Deadlines

Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Direction of Travel	Comments
		January 2021		February 2021					
Calculate and notify (dependent(s) of amount of death benefits	As soon as possible but in any event no more than two months from date of becoming aware of death or from date of request from a third party (e.g. personal representative)	41	97.56%	33	100%	45	100%		
Provide all active and deferred members with annual benefit statements each year	By 31st August								In 2020 an ABS was been issued for all members who were due to receive one

Team Performance Targets

Process	Team Target	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Direction of Travel	Comments
		January 2021			February 2021							
Send a notification of joining the LGPS to a scheme member	30 days from date of notification of joining member	156	89.10%	16	197	80.20%	31	183	49.18%	70	⬇	Initiative being undertaken by pension support officer to clear new starters. As at end March there were 286 outstanding new starters, compared with 814 at end December. A further pension support officer has been recruited who will focus soley on new starters for the next 6 months to clear outstanding cases and ensure we keep on top of ongoing demand for processing new starters.
Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases	40 working days from date of notification (from employer or scheme member)	14	7.14%	663	33	21.21%	906	44	31.25%	383	⬆	Historical backlog is impacting performance. Contract has now been awarded to Hymans Robertson to provide administration services to clear this backlog. The cases have now been passed over to Hymans who are undertaking analysis of the cases and completing some sample calculations for the Croydon pension team to verify.
Inform a scheme member of their calculated benefits (refund or deferred) –	40 working days from date of notification (from employer or scheme member)	16	68.75%	43	55	56.36%	44	123	47.97%	72	⬇	Due to resources needed to be redirected to other priority areas of work performance has been impacted. Resources are now being directed to leaver calculations on a daily basis. Achievement in the

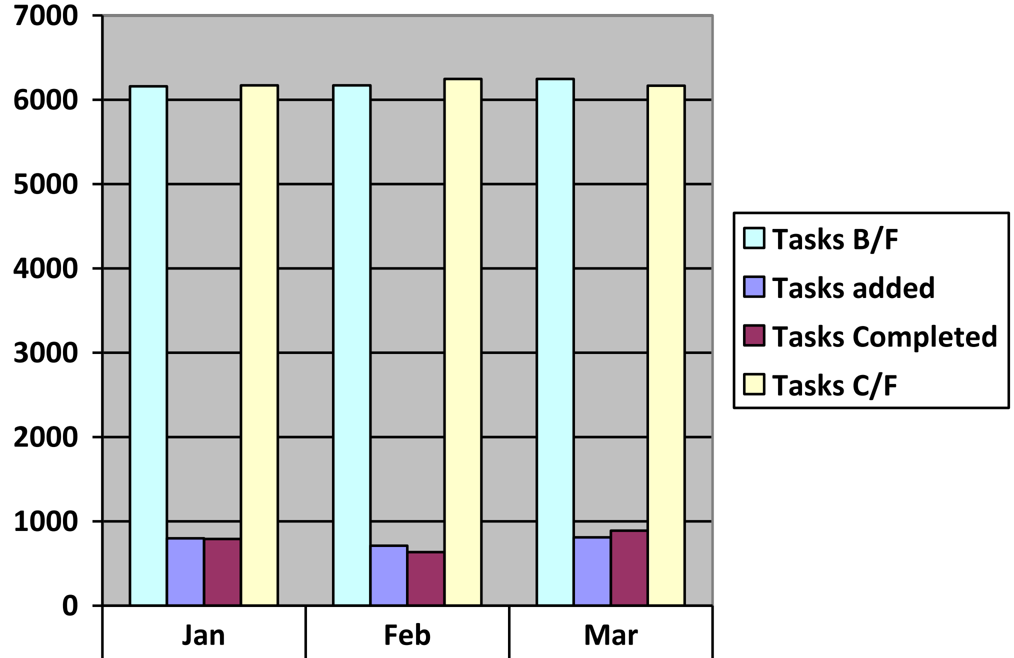
new cases												number of cases will be monitored for the next 3 months. In addition there are some process changes are being investigated as leaver tasks are being erroneously created when an employee changes jobs, rather than leaves which is artificially inflating the number of outstanding tasks.
To process and pay a refund	40 working days from the date of request	10	100%	2	16	100%	3	14	100%	3		
Obtain transfer details for transfer in, calculate and provide quotation to member	40 working days from the date of request	3	66.67%	3	1	100%	9	2	50%	26		One case that was not processed within target timescale, taking 51 days to be processed..

Team Performance Targets

Process	Team Target	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Direction of Travel	Comments
		January 2021			February 2021							
Notify the amount of retirement benefits	20 working days from date of retirement	45	100%	2	44	97.73%	3	1	100%	1		
Provide a retirement quotation on request	15 working days from date of request	196	100%	5	65	96.92%	5	74	95.95%	1		Small number of cases in February and March not processed within target timescales where further infromation was needed. In March there were 3

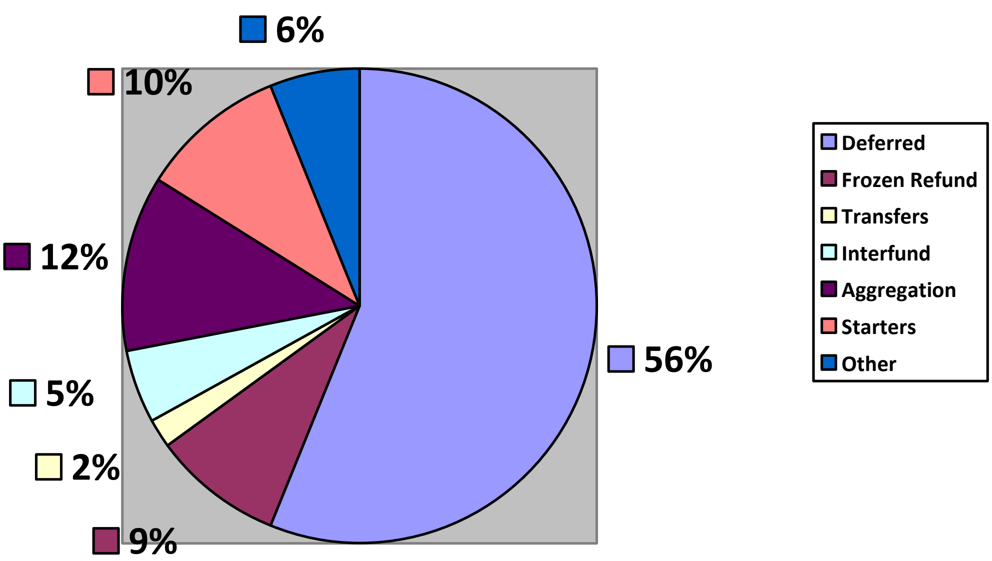
												cases which were not processed within 15 days and the maximum number of days taken was 24.
Calculate and notify (dependent(s) of amount of death benefits	20 working days from receipt of all information	41	97.56%	6	33	96.97%	5	45	100%	5		

Case levels



	Jan	Feb	Mar
Tasks B/F	6160	6170	6247
Tasks added	800	712	809
Tasks Completed	790	635	890
Tasks C/F	6170	6247	6166

Outstanding Cases by Type



Member self-service

Scheme members registered	4781 (28.77%)
Number scheme members who accessed annual benefit statement Q4 Jan 2021 – Mar 2021	499

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REPORT TO:	**PENSION COMMITTEE** **25 May 2021**
SUBJECT:	**Reconsideration of Decision to Transfer Property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund.**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**

CORPORATE PRIORITY/POLICY CONTEXT:

This is a matter for the Pension Committee relating to the level of contributions from the Council as the principal employer and the future viability of the Croydon Local Government Pension Scheme.

FINANCIAL SUMMARY:

This report considers the factors impacting on the decision to allow in principle for assets to transfer from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund and concludes that this decision should be rescinded.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

1.1 The Committee is asked to rescind the decision taken by the Pension Committee on the 21st November 2018 (a) to receive into the Pension Fund 346 housing properties leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP from Croydon Council between November 2057 and April 2059 and (b) to adjust the Council's employer contribution rates to take account of the future transfer of the properties; and

1.2 To RECOMMEND to full Council that it rescind the decision taken on 28th January 2019 to transfer, at the break of the leases in 40 years, the 346 housing properties leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP identified in the report to the Pension Fund.

2 EXECUTIVE SUMMARY

2.1 This report considers the decision to in principle to allow the future transfer of properties leased to Croydon Affordable Homes and Croydon Affordable Tenures, considered by the Pension Fund Committee on the 21st November 2018 in the light of changed circumstances. The report notes that the performance of the portfolio of investments means that the Croydon Fund should be considered typical and not an outlier, nationally or locally. The report notes the number of enquiries from aspects of the regulatory framework. Reference is made to the risk appetite of the Fund and the complexities inherent in this project. The change of circumstances strongly suggests that it is appropriate to reconsider the Committee's approach.

3 DETAIL

3.1 The decision in principle to allow the future transfer of properties leased to Croydon Affordable Homes and Croydon Affordable Tenures was considered by the Pension Fund Committee on the 21st November 2018 and then by the Council at its meeting on 28th January 2019. For various technical reasons this project has not moved to completion. A change of circumstances and the effluxion of time means that it is now appropriate to reconsider this approach.

3.2 The Croydon Local Government Pension Scheme Fund (the Fund) has performed well over a number of recent years. The funding level, that is to say the proportion of assets available to meet current and future anticipated liabilities, has improved from 66% in 2010 to 88% as reported in the 2019 Triennial Actuarial Valuation. Compared to our peers at the 2010 and 2013 valuations, the Fund were one of the poorest funded LGPS funds in England and Wales, however based on the recent reporting by the Government's Actuary's Department (GAD), the Fund is now nearer the middle of the pack both nationally and in London. Overall, the LGPS as a national scheme and at the local, Croydon, level is in a better position to meet its liabilities (i.e. more assets held versus benefits owed to members). The factors that supported a riskier and innovative approach are therefore less attractive. On the basis of the stronger funding position of the Fund alone the orthodox and prudent approach would be to review our funding objectives and consider reducing the level of risk within the portfolio.

3.3 There have been a number of enquiries and comments to the adoption of this approach. Although the reports considered by the Pension Committee, Cabinet and the Pension Board were supported by input from professional independent advisors and legal opinion was provided, this approach is novel and innovative and without precedent (the only other example is different in key aspects). The external auditor has carefully scrutinised this approach. Both the Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator have both expressed interest in the approach proposed to be adopted by the Council, although no formal response has been received from either body.

3.4 In the light of the time since the initial decision was taken it is prudent that the original decision be reviewed and either confirmed or rescinded .In balancing the likelihood of being able to meet current and future liabilities against an appropriate forecast of investment returns and contributions from Scheme employers, a prudent approach is required by the LGPS Regulations. The funding approach therefore needs to be driven by a measure of risk and not simply expenditure of cash. As flagged above, the Pension Fund is in a healthier position now than was the case when the assumptions underpinning the proposal for the property transfer were put together. As described above there is a significant amount of uncertainty built into this proposal particularly in terms of future value and this uncertainty does not fall into the usual categories of risk that the Fund is usually exposed to, such as that related to: interest rates,; currency; liquidity; government policy; and so forth. These risks are quantifiable and comprise the Fund's risk appetite. Uncertainty leads to undue risk without the reward that normally would be associated with risk.

3.5 Another factor to be considered is the inherent operational complexity of managing this exercise. As mentioned above this proposal is unique and the associated time scale, of 40 years, brings challenges. It is unusual for a Fund of this size to manage a large residential property portfolio in-house and maintaining these assets as investments rather than as social housing is outside the scope of current housing teams. One of the reasons for the delay in executing this proposal has been the difficulty in valuing the proposal and projecting that valuation into a future net value.

3.6 In summary therefore, circumstances have changed since this proposal was formulated in 2016. The Pension Fund is performing well, reducing the need for riskier investments. More is known about the risks associated with this scheme, more attention has been focused on this proposal and the technical challenges have been highlighted.

3.7 To conclude: it is very important to understand that there is nothing illegal in this proposed scheme, the Council could chose to undertake this proposal should it wish to . However, the Council has seen a change in circumstances which means there is a level of risk that the Pension fund in the view of the Section 151 officer should not be comfortable with. There are other ways of achieving the outputs desired which are considered elsewhere on this agenda and the associated risks of these alternatives are better understood and easier to measure and monitor. On that basis it is recommended that the original decision be rescinded.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the assets of the Council's Pension Fund.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer.

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Council is the 'administering authority' for the Croydon Pension Fund which forms part of the Local Government Pension Scheme. As such the Council is responsible for administering, maintaining and investing the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Council is also a 'scheme employer' in relation to the Fund.

6.2 External specialist legal advice was secured on the legal powers to enter into a transfer of significant property assets into the Pension Fund in 40 years' time in exchange for a reduction in employer contributions and how best this could be accomplished which advice was provided to Members in 2018. Issues and considerations for the Council to consider were also presented. Options to achieve the proposal were considered by Members. Ultimately full Council resolved on 28th

January 2019 on the recommendation of this Committee to transfer 346 homes leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP from the General Fund into the Croydon Pension Fund or any successor body in 40 years' time in order to give effect to the future gift of the assets to the Fund

6.3 The Council's Constitution provides in Part 4A paragraph 1.14 restrictions on the Council's power to move a motion to rescind or amend a resolution. Such a restriction relates to resolutions passed in the previous six months. The resolutions of this committee and full Council were made in 2018 and 2019 respectively and as such these provisions will not restrict the rescission or amendment of those resolutions should Members be minded to agree the recommendations in this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed.

8. HUMAN RESOURCES IMPACT

8.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

9. EQUALITIES IMPACT

9.1 There are no equalities impacts arising from this report.

10. ENVIRONMENTAL IMPACT

10.1 There are no environmental impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no crime and disorder impacts arising from this report.

12. DATA PROTECTION IMPLICATIONS

12.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

12.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Appendices:

There are no appendices.

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Agenda Item 12

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