Public Document Pack

Pension Board Agenda

To: Michael Ellsmore (Chair)
Co-optees: Richard Elliott, Teresa Fritz, Ava Payne and David Whickman
Councillor Humayun Kabir

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Wednesday, 21 July 2021** at **2.00 pm. This meeting will be held remotely**

ASMAT HUSSAIN
Executive Director of Resources and
Monitoring Officer (Interim)
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
Tuesday, 13 July 2021

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

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

2. Minutes of the Previous Meeting (Pages 5 - 12)

To approve the minutes of the meeting held on 25 March 2021 as an accurate record.

3. 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.

4. 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.

5. Croydon Pensions Administration Team Key Performance Indicators (Pages 13 - 30)

6. Reconsideration by Pension Committee of Decision to Transfer Property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund (Pages 31 - 38)

7. Review of Risk Register (Pages 39 - 44)

8. Review of Board and Committee Training Plan (Pages 45 - 50)

9. Review of Breaches Log (Pages 51 - 56)

10. **Funding Strategy Statement (FSS) updates - Exit Credit and Employer Flexibilities Regulatory Amendments** (Pages 57 - 110)

11. **Local Government Pension Scheme Advisory Board / The Pensions Regulator Update** (Pages 111 - 114)

12. **Renewal of Governance Consulting Contract** (Pages 115 - 116)

13. **Reporting and Monitoring Contributions 2020/21** (Pages 117 - 120)

14. **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."

This page is intentionally left blank

Pension Board

Meeting held on Thursday, 25 March 2021 at 2.00 pm .This meeting was held remotely via Microsoft Teams

MINUTES

Present: Michael Ellsmore (Chair);
Co-optees: Richard Elliott, Teresa Fritz, Daniel Pyke, Ava Payne and David Whickman

Also Present: Councillor Andrew Pelling
Nigel Cook, Head of Pension and Treasury
Victoria Richardson, Head of HR and finance Service Centre
Gillian Phillip, Pension Manager

Apologies: Chris Buss. Director of Finance Investment and Risk

PART A

11/21 Apologies for absence

Apologies received from Chris Buss, Director of Finance Investment and Risk.

12/21 Minutes of the Previous Meeting

The minutes of the meeting held on 14 January 2021 were agreed as an accurate record

Matters Arising

It was commented that at the meeting of October 2020, there were items that were requested to be placed on the work programme for the remainder of the Municipal year which had not been placed on the agenda for this meeting as suggested. Officers advised that the reason was due to difficulties in producing reports in accordance to corporate deadlines to the Pension Committee and Pension Board timetabled meetings. Officers have now completed a schedule which they will share which timetables when the items will be brought forward to the meetings in the coming Municipal year. It was also agreed for an action tracker to be produced and circulated to ensure that items were not missed off the agenda going forward and to track progress.

The ongoing lack of payment to the PLSA by the Council was discussed and officers acknowledged that there had been substantial problems with payment of invoices. The Chair of the Board asked that it be noted that there was embarrassment at the lack of communication by Croydon Council to the PLSA and failure to make payment.

13/21 Disclosure of Interests

There were none.

14/21 Urgent Business (if any)

There were no items of urgent business.

15/21 Reporting Contributions

The Head of Pension and Treasury introduced the item and stated that this report followed on from the two previous reports that looked at the work completed by the Pensions Regulator. One of the areas highlighted as requiring further improvement was on the interrelationship with other scheme employers and the report sets out how to do that. It was added that the report set out processes that would inform the future direction of the work and at the next Board meeting, data and analysis on contributions would be presented. Any concerns would be included in the breaches register.

It was asked if any of the employers were in arrears and if a list could be provided to the Board. Officers said that the answer to the questions was more nuanced as some employers were in arrears whilst other were paying their contributions. The lack of payment by some was due to complication of calculations of contribution due to difficulties experienced in extraction of payment from payroll systems or change of hours, circumstances and pay of staff. This resulted in discrepancies on reconciliation between the contributions figures provided to the team and the calculations by the team which did not always equate to arrears or default of contribution. The main employer's contributions in question as set out in the report was in relation to Academies which was the subject of a court case.

It was commented that it was vital that visibility be maintained by the Board and in order for this to happen, officers should ensure that information and data was easily accessible. As a Board, interest was in accounts that exceeded 60 days old that had yet to be reconciled. In order to be reassured and confident that the system in place was working it was important to be supplied data to enable that judgement to be made and a simple arrears list should be presented to the next meeting of the Board. Officers agreed and committed to provision of this for the next meeting of the Board.

It was further highlighted that security of unpaid contributions was another item for further consideration and the Chair commented that this was an area that remained problematic for different reasons but agreed that should be added to the work programme for further exploration.

RESOLVED:

I. The Board **AGREED** to note the contents of the report.
II. That officers compile a simple arrears list to be presented at the next meeting.

16/21 Reports of Scheme Advisory Board and The Pensions Regulator

The Head of Pensions and Treasury introduced the item and the following was highlighted:

- A good governance project was underway
- The 95k Exit Cap was introduced and there was a situation with two sets of regulations that were in conflict. The Government had now made the decision to withdraw this and due to the amount of work and hours spent, the Fund would be looking at a request for the refund on the hours spent.
- The report contained the Lifetime allowance freeze consultation
- Climate and environmental risk as well as social and governance issues were areas of priority. The Pension Committee would be looking to firm up its position in all these areas. A paper would be presented to the next meeting which firms up processes on what they would look to achieve and how.

It was commented that on the Climate risks issue, the Board knows it's not the Council's policy but that of the administering body. This needed to be subtly referenced in written reports. The year ahead was focused on governance with a mini review of the Pension fund taking place. The Pension Advisory Board Good Governance project was also underway and it would be beneficial for a report to be presented to the Board on the impact of that on Croydon's assessment.

There was a clear recommendation from the Good Governance about having separate conflicts of interest policy and it had proved difficult to get the Pensions Committee to acknowledge the subtleties of this on the administrative body. This must remain an area of close scrutiny for the Board as well as the TPR regulators shift from code of practice 14 to a modular format.

Officers agreed with the points made and would pick this up in the work programme. The Council as well as other Local Authorities had been nonspecific in their approach by declaring a Climate Emergency but not how this would be addressed. The Pension Funds policy will look to be more specific, transparent and measurable.

A Member asked how much employers and members knew about the minimum pension age consultation and whether it was open to them to comment. Officers advised that they would look into this in further detail and whether if was something they should be notifying employers about.

In response to a question on how closely or aligned the Pension Fund was with the London CIV on the ESG and if there was a drive towards carbon neutral funds. Officers said that the London CIV had yet to publish anything on this although they had a team working on this specifically. The issue was that as this was a London wide project there were 32 members involved which meant there would always be an inherent problem in finding a common ground between the Local Authorities. The main area of concern for the local

authorities was not in the product itself but the support and the landscape of investment to ensure that they are not invested in a product of little of no value.

RESOLVED: The Board **AGREED** to note the contents of the report.

17/21 Key Performance Indicators

The Head of HR and Service Centre introduced the report which updates the Board on the performance of the team. The Board was reminded that in December 2020 the Council issued a corporate voluntary severance scheme which meant there was increased demand of 200 pension's estimates for interested scheme members. The team delivered the 200 estimates within target timescales despite lack of resources. There remained areas of issues in the backlog of deferred benefit calculation for which a contract had now been signed with Hymans for clearance of this and they had been handed 2700 cases for analysis as to how to approach them. It was envisaged that there would be figures to be reported to the Board on progress at its next meeting. An experienced senior pension officer had joined the team and the vacancy for the support officer was being interviewed for in the next week.

In response to a member question on what more could be done to promote the online service and increase usage, officers acknowledged that this should be an area of priority and there was an opportunity to do some targeted work on this in line with the annual benefits statement release. This would be discussed in more detail and a plan formulated to be brought back to the next meeting of the Board. The software provider had made some improvements on ease of usage of the system around registration and ability to reset own passwords as well as updates on the system with member self-service additions.

It was commented that it was disappointing that there was only 27% of usage of the online system and it was suggested that this could be a matter for operational management and could be discussed in team meetings with team managers actively promoting and encouraging staff to utilise the service in order to be abreast with their financial health.

The appearance of a slight downward trend on notification of death benefits was commented on and officers said that this was as a result of one case in January that was awaiting further information on that resulted in this, prior to that the target of 100% had been met in all instances.

A Member commented that clarification on the communication process between the Pensions team and members in schools was sought as it would appear that Pensions forecasts went to head of schools and it was down to the head to disseminate that information. The fact that this process would change with the pension dashboard going online was welcomed. It was asked what the union could do to facilitate and open up lines of communication. Officers said that the Council had a schools forum and bulletin that the pensions scheme contributed to and prior to the pandemic an employer's

forum that they used to communicate. It was agreed that information about online access and accessing benefit statement would be shared and the link would be shared to the public website for this information.

In response to a question on McLeod and resources, officers said that some information had been obtained from Haywards which was being analysed for any missing data. It was envisaged that extra sources would be needed and the scale and period this would be required for was still being worked through.

The Chair expressed the wish to invite the director of HR to the July meeting of the board for members to be able to directly convey some of their concerns. Members agreed to this recommendation.

RESOLVED: The Board **AGREED** to Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report and;
The Chair write to invite the Director of HR to the July 2021 meeting of the Board.

18/21 Risk Register

The Head of Pensions and Treasury presented the item and the following was noted:

- There was concern as to the impact the coronavirus pandemic would have on the markets and as a result the portfolio had been structured in a way where there was diversification of asset classes and regions of investment, philosophy, currency and others.

- The Pension Fund had performed relatively well despite the current climate and challenges. Liquidity risk was also an issue which was no longer considered a problem.

- The performance figures were impacted by the issues presented by the Exit cap which has been remedied for the time being.

- The problems expected by Brexit had not been reflected in the valuation of assess and the Sterling appears to be performing well against the Euro. There was a mechanism on place to mitigate on any disadvantages by movements against the Sterling.

Assurance was sought that the asset transfer would not pose a risk and officers said that the asset transfer only affected the Council's deficit contribution. It was asked that this be clearly documented. The Chair added that a letter was written to the CEO requesting a position statement and following conversations with Chris Buss, it was decided that re endorsement was what should be sought at this stage

Discussions took place around cyber security risk, in particular the risk of data being accessed and what had happened with the cyber security scorecard produced by AON as it was important to have an independent view of all the possible cyber issues. The Council's security officer had provided officers with some advice in particular due to the amount of data held with Haywards. Both Hymans and Haywards have the gold standard of cyber security accreditation which was reassuring. They would be asked for evidence of annual audits of those accreditations

RESOLVED: The Board **AGREED** to note the contents of the Pension Fund Risk Register

19/21 Breaches of the Law Log

The Head of Pensions and Treasury introduced the item and flagged breaches:

- The use of a registered medical practitioner, which was resolved through the RDRP process
- Issuing of the annual benefit statements on time
- The back log of cases which were being self-reported on

A Member challenged whether the Board could confidently state that the backlog of cases was not material as the TPR guidance states when breaches had been identified, if prompt action had been taken to remedy the breach. The Board was not confident that prompt action had indeed been taken to remedy this breach and it was questioned whether the breach should in fact be reported for the backlog.
Officers responded that there was a corrective plan of action in place and that there had been issues, including the pandemic that had affected enacting that plan. The rationale behind it being marked as an amber breach and not red was due to the fact that a contract had now been awarded to a third party to process.

The Chair said that this was a matter that could be put to the HR Director at the July meeting as it would be expected that a significant impact should have been seen by then on reduction of the backlog.

RESOLVED: The Board **AGREED** to note the contents of the Pension Fund Breaches Log

20/21 Training Plan

The Chair commented that structure was needed in formalising the training plan and it was suggested that a structured plan be formulated based on approximately 15 subject areas that's the board could receive training on. The current structure which asks for Members to flag areas that they feel they need more training on which can be quite difficult for members to identify their needs. Officers agreed to this suggestion and also for an organisational chart to be provided to the Board

RESOLVED: The Board **AGREED** to note the contents of the Pension Fund Training Records

21/21 Exit Payment Cap Report

The Head of HR and Service Centre stated that at the last Board meeting, the conflict in regulations was reported and the decision was made that they would pay a reduced or deferred benefit to anyone affected. The Government had now rescinded those regulations and further instruction would be awaited from the government in the future.

RESOLVED: The Board **AGREED** to note that

i. On 12 February 2021, the government announced that the Restriction of Public Sector Exit Payments Regulations 2020 (Exit Cap Regulations) introduced on 4 November 2020 to cap exit payments in the public sector to a maximum of £95,000 will be revoked, and that an HM Treasury Direction would disapply the Exit Cap Regulations 2020 until revocation, removing any conflict with the LGPS regulations that arose as a result of the cap, with immediate effect from 12 February 2021;

ii. On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 (Revocation Regulations) were laid before Parliament. They will come into force on 19 March 2021 and formally revoke the Cap Regulations from that date.

iii. the administering authority will revert to using local factors supplied by the funds actuaries for calculating early retirement strain costs

22/21 Exclusion of the Press and Public

"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."

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

The meeting ended at 3.41 pm

Signed: .....

Date:

This page is intentionally left blank

REPORT TO:	**Local Pension Board** **8 July 2021**
SUBJECT:	**Croydon Pensions Administration Team Key Performance Indicators for the Period** **1 March 2021 to 31 May 2021**
LEAD OFFICER:	**Vicki Richardson** **Head of HR & Finance Service Centre**

1. RECOMMENDATIONS

The Board is asked to:

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 Scheme (LGPS) for the three month period up to the end of May 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 March 2021 to 31 May 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 There has been an extraordinary demand on the pension administration team over the last few months to due to a Council wide voluntary severance scheme.

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 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 May 2021 there were 5860 workflow tasks outstanding which is a 4% decrease on the previous month.

3.5 Hymans Robertson have been engaged to clear the outstanding tasks relate to a historical backlog of deferred benefit cases. The high level project plan is shown as Appendix C.

3.6 A pension support officer has now been recruited who will focus solely on new starters for the next six months. In May 2021 the number of outstanding tasks for new starters decreased by over 67%.

3.7 Due to resources needing to be redirected the number of outstanding deferred benefit cases for leavers has increased over the last few months, with 823 tasks outstanding at end May. 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.

3.8 In addition to normal casework the team are also processing year end data received from employer's in preparation for the issue of Annual Benefit statements by 31 August 2021.

3.9 Earlier in the year we had successfully recruited to all vacancies in the pension administration team. Following that we had 3 further vacancies arise due to resignation which are all being actively recruited to with closing dates for application scheduled for end June 2021.

3.7 The latest development on the McCloud ruling in the LGPS is the Written Ministerial Statement from the LGPS Minister Luke Hall who made a statement on 13 May 2021 confirming the key elements of the changes to the LGPS regulations in order to implement the McCloud remedy. LGPS regulations are expected to come into force from 1 April 2023. Whilst draft regulation are not expected until later in the year we are actively investigating options for resourcing the required data gathering exercise.

3.9 Member self-service take up as at end March 2021 was 28.77%, which is an increase of 3.77% compared with March 2020. The member self-service communication plan for 2021-22 is shown as Appendix B

4. DATA PROTECTION IMPLICATIONS

4.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

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

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, May 2021
Appendix B: Member Self-service Communication Plan 2021-22
Appendix C: Deferred Project - High Level Project Plan

This page is intentionally left blank

Croydon Pensions Admin Team

Performance Report

May 2021

Delivering for Croydon | CROYDON
www.croydon.gov.uk

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
		March 2021		April 2021		May 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	183	49.18%	155	47.74%	268	31.34%	↓	A pension support officer has been recruited who will focus soley on new starters for the next 6 months to keep on top of ongoing demand for processing new starters. Whilst the % achieved in the legal deadline was low in May this is as a result as a large number of old cases being processed.
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)	44	31.25%	21	23.81%	19	10.53%	↓	Historical backlog has now been passed to Hymans Robertson for processing.
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)	123	61.79%	70	71.43%	66	77.27%	↑	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.

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
		March 2021		April 2021		May 2021			
To process and pay a refund	Two months from the date of request	14	100%	18	100%	8	100%		
Obtain transfer details for transfer in, calculate and provide quotation to member	Two months from the date of request	4	100%	1	100%	2	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	1	100%	54	100%	44	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	74	100%	118	99.15%	89	100%		

Legal Deadlines

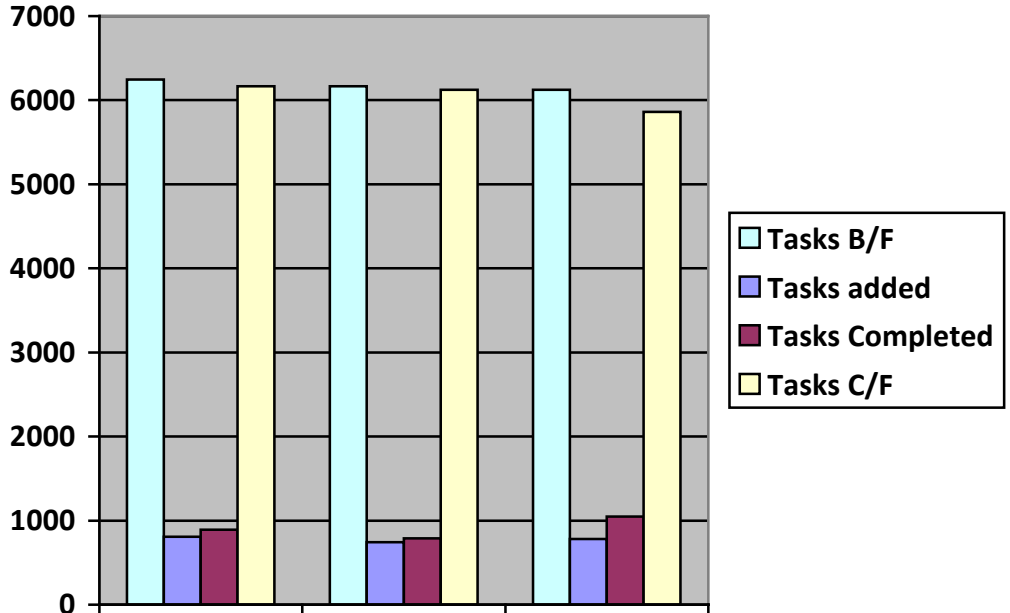
Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Direction of Travel	Comments
		March 2021		April 2021		May 2021			
Calculate and notify (dependent(s) of amount of death 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)	45	100%	23	100%	36	100%	➡	
Provide all active and deferred members with annual benefit statements each year	By 31st August								

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
		March 2021			Apr-21			May-21				
Send a notification of joining the LGPS to a scheme member	30 days from date of notification of joining member	183	49.18%	70	155	47.44%	77	268	31.34%	97	⬇	A pension support officer has been recruited who will focus soley on new starters for the next 6 months to keep on top of ongoing demand for processing new starters. Whilst the % achieved in the legal deadline was low in May this is as a result as a large number of old cases being processed.
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)	44	31.25%	383	21	23.81%	783	19	10.53%	769	⬆	Historical backlog has now been passed to Hymans Robertson for processing.
Inform a scheme member of their calculated benefits (refund or deferred) – new cases	40 working days from date of notification (from employer or scheme member)	123	47.97%	72	70	54.29%	45	66	68.18%	47	⬇	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.
To process and pay a refund	40 working days from the date of request	14	100%	3	18	100%	3	8	100%	9	➡	

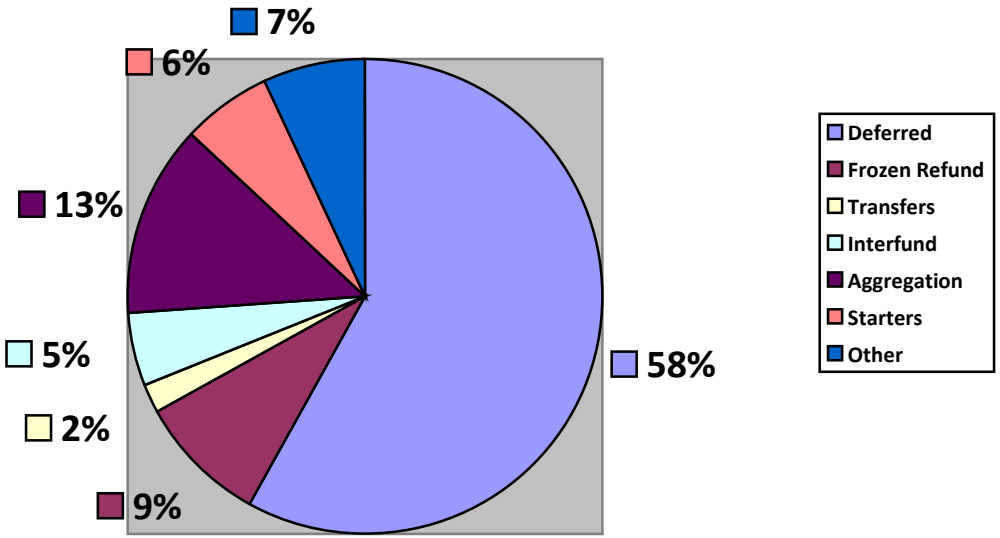
Process	Team Target	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Total Number Completed	% Achieved against target	Average days to process	Direction of Travel	Comments
		March 2021			Apr-21			May-21				
Obtain transfer details for transfer in, calculate and provide quotation to member	40 working days from the date of request	2	50%	26	1	100%	1	2	50%	7		During May one case was not processed within target timescale, taking 45 days.
Notify the amount of retirement benefits	20 working days from date of retirement	1	100%	1	54	100%	3	44	100%	3		
Provide a retirement quotation on request	15 working days from date of request	74	95.95%	1	118	89.83%	6	89	93.26%	5		
Calculate and notify (dependent(s) of amount of death benefits	20 working days from receipt of all information	45	100%	5	23	91.30%	6	36	100%	6		

Case levels



	Mar	Apr	May
Tasks B/F	6247	6166	6123
Tasks added	809	744	783
Tasks Completed	890	787	1046
Tasks C/F	6166	6123	5860

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

Member Self-service Take-Up Communication Plan – 2021/22

Action	Method of Communication	Audience	Frequency	Completed ✓
Promote MSS in all letters sent to scheme members	Letter	Active/Deferred members	Daily	✓
Provide details of MSS in welcome letters	Letter	New members	Weekly	✓
Promote MSS via Pension website	Online	Active/Deferred members	N/A	✓
Promote via mailbox automated response	Email	Active/Deferred members	Daily	✓
Promote on all emails issued to members	Email	Active/Deferred members	Daily	✓
Promote via employers forum	Face to Face	Active members	Quarterly	
Promote to employers as part of new website launch	Email	Active members	Single event	
Promote via staff intranet as part of new website launch	Staff Intranet	Active members	Single event	
Promote MSS via staff intranet when ABS issued.	Staff Intranet	Active members	Annual	
Promote MSS via scheme employers when ABS issued.	Email	Active members	Annual	
Write to targeted group of deferred scheme members	Letter	Deferred members	Annual	

This page is intentionally left blank

As At June 2021

CROYDON DEFERRED PROJECT - HIGH LEVEL PROJECT PLAN

Phase	Activity	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Phase 1 Initial Analysis	Validation of cases																		
	Categorisation of cases																		
	Agreement of assumptions																		
	Agreement of high-level process																		
	Access to systems and tools																		
	Identify resources																		
	Process urgent cases																		
Phase 2 Implementation - CARE processing	Define procedures for CARE only cases																		
	Orientation for processors on external systems and assumptions																		
	Case Processing																		
	Process urgent cases																		
	Trial reporting																		
Phase 3 Implementation - non-CARE processing	Define procedures for Final Salary cases, CARE/FS cases, Multi-record cases																		
	Case Processing																		
	Reporting																		
	Process urgent cases																		
Phase 4 Closure	Final reporting																		
	Lessons Learned																		
	Closure report																		

This page is intentionally left blank

REPORT TO:	**Pension Board** **8 July 2021**
SUBJECT:	**Reconsideration by Pension Committee of Decision to Transfer Property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund.**
LEAD OFFICER:	**Nigel Cook Head of Pensions Investment and Treasury**

1. RECOMMENDATION

1.1 The Board is asked to note the report presented to the Pension Committee of 25 May2021.

2. EXECUTIVE SUMMARY

2.1 The report presented to the Pensions Committee set out the argument for rescinding the earlier decision to transfer property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund. The Pension Committee asked for a further report to be prepared for the September meeting.

3 DETAIL

3.1 The report to the Pension Committee considered the decision to in principle 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. That report noted that the performance of the portfolio of investments meant that the Croydon Fund should be considered typical and not an outlier, nationally or locally, as far as funding levels were concerned. The report noted the number of enquiries from aspects of the regulatory framework. Reference was 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.

3.2 The Pension Committee opted not to reconsider this decision and asked that a further report be prepared for the September 2021 meeting.

3.3 The lawyers acting on behalf of the Pension Committee in this complicated case have suspended undertaking any further work pending a clearer direction from the Committee. There are two reasons why officers consider that more legal work does not constitute value for money. The portfolio of properties represents an organic environment where changes to leases are sought and negotiated and where tenants sell their properties and new tenants move in. In order to ensure that the portfolio in this proposal matches the legal documentation a full review of the portfolio would have to take place and this would remain fluid up to the time that the transfer was formalised. In a similar fashion a valuation would need to be struck at the time any transfer was to occur. This valuation would be an extensive

exercise given the number of properties involved and would have a relatively short shelf life.

3.4 Until the Committee provide clear guidance on the approach to be adopted no further legal work will be commissioned and so no additional legal costs will be incurred save storage of papers.

3.5 The report that was submitted to the Pension Committee is appended to this report.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

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

---

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Reconsideration of Decision to Transfer Property from Croydon Affordable Homes and Croydon Affordable Tenures to the Pension Fund.

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.

This page is intentionally left blank

REPORT TO:	**Pension Board** **8 July 2021**
SUBJECT:	**Review of Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATION

1.1 The Board is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register covering the most significant risks faced by the Fund. This report presents the current register (Appendix A) for the Board's consideration.

3 DETAIL

3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses the most significant risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details these risks.

3.2 The Board is invited to comment on whether it considers this list sufficiently exhaustive and whether the assessment of each risk matches its perception on the adequacy of existing and future controls.

3.3 In accordance with the Risk Management Policy, the Risk Register is reviewed periodically and reported to the Committee on a quarterly basis.

3.4 Risks are rated on a scale of 1 (rare) to 5 (almost certain) on the likelihood of the risk occurring and its impact of 1 (insignificant) to 5 (catastrophic) if it does as shown in the matrix attached to the Log (Appendix A). This allows a range of potential scores of between 1 and 25 by multiplying the likelihood score by the impact score. The register shows that there are 15 risks on the register with 13 being significant risks for the Fund (ie scored 12 or higher) and is attached as Appendix A to this report.

3.5 Since the Board last reviewed the Register on 25 March 2021, no risks have been added or removed.

3.6 The Board is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

4. DATA PROTECTION IMPLICATIONS

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

NO

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

---

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

BACKGROUND DOCUMENTS:
None

APPENDICES:
Appendix A: Risk Register

Pensions Risk Register

	Risk Scenario			Current Risk Rating			Future controls	Future risk rating		
	Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
	Governance Risks									
1	If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
	Funding - Assets and Liabilities Risks									
2	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
3	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liablities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
4	There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	The templates were issued to many employers and have aided administration and checking. Receipt is recorded. The checklist has enabled the governance team to chase any missing schedules ahead of the deadline preventing late arrivals. Returns are checked to make sure the correct contribution percentages have been applied and any inconsistencies are queried. The accounts team carry out checks to reconcile payments received to payments due and any inconsistencies are investigated by the governance team. Improved communications between the teams is aiding in this process. A contributions monitoring report is being created for the Board which will report on schedules and payments received to enable more effective scrutiny. In line with this, additional data monitoring sheets have been created by the governance and accounts teams. These measures are improving outcomes. However, they require more time to administer and resources across the governance and accounts teams are impacted.	3	5	15
5	Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.	4	3	12	Equity markets are expected to remain bullish. This should contine to drive returns above the 4% target.	4	2	8
	Investment Risks									
6	There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.	Pension Fund Investment Manager	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.	4	3	12	The domestic economies of most developed countries have been protected and thus have proved to be resilient and to rebound quite quickly. Although the effects of the pandemic will continue to be very difficult for emerging markets and prople across the globe, the Fund is well positioned to take advantage of resurgent markets.	3	2	6
7	The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.	Head of Pensions and Treasury	Recruitment has inevitably been impacted by the lockdown but the CIV has now filled a number of key roles. This provides a degree of reassurance that fund launches and key projects should be able to proceed according to plan.	4	2	8	As the CIV becomes more established recruitment issues should become less significant.	4	2	8
	Global Macro-economic Risks									
8	Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Pension Fund Investment Manager	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	The asset allocation strategy will be revised during 2021/2022. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.	4	3	12
9	There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterous impact on the Fund.	Head of Pensions and Treasury	The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.	3	3	9
10	Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund's liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.	Pension Fund Investment Manager	The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.	3	4	12	The current monitoring arrangements are effective and will continue going forward.	3	4	12
11	There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.	Pension Fund Investment Manager	Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.	4	3	12	The rebalancing has now been completed and the allocation strategy is being reviewed.	3	2	6
	Operational Risks									

12	Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.	Head of Pensions Administration	Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise. Key suppliers, Aquila Heywood and Hymans Robertson both have ISO:270001 which is the international standard for information security management systems (ISMS).	4	3	12	Communication of the business continuity plan to relevant staff could be considered Check with key suppliers for details of any annual security reviews/audits	4	2	8
13	Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.	Pensions Administration Manager	• Mandatory GDPR training has been provided to all new and existing staff. • There is a remote working protocol available on the staff intranet which includes guidance on working securely, in addition to a good practice guide on information management. • When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations. • Appropriate data access levels to the pensions administration system are assigned by the Technical Support Team on appointment or change of role, according to the requirements of the role.	4	3	12	Cyber security training for all staff	4	2	8
14	McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.	4	4	16	Resource review is currently taking place with a view to recruiting dedicated McCloud administration staff. Communications are being sent to employers outlining our requirements and templates will be issued shortly.	4	3	12
15	Issuing of Section 114 Notice. There is a risk affecting the ability of the Pension Administration Team to be able to respond to the increased demand for benefit calculations. As a result of the Notice many Council services are being reviewed in order to make financial savings. This will result in large numbers of staff being made redundant. With the added uncertainty of the Council's financial situation some staff are seeking employment elsewhere so numbers of voluntary resignations could also increase. Those staff who are members of the scheme will all need benefit calculations. This will be a considerable extra workload for the team, which is currently operating with vacancies which are waiting to be filled. With the introduction of the exit cap reforms benefit calculations for staff leaving on redundancy or interests of efficiency grounds have become considerably more complex and far more time consuming to perform. The pension administration software has not been updated to incorporate the regulatory changes yet so, as an interim measure, a calculation facility will be provided by Hymans. This will be a new process and so will take time for the team to become familiar with. As in risk 15 concerning the exit payment reforms there is a risk of legal challenge from members and possible financial costs to the Fund. Lack of certainty around the regulatory requirements could lead to uncertainty around benefit calculation, resulting in inaccurate or late benefit notifications, lack of confidence in the service and legal breaches reportable to The Pensions Regulator. Increased options available to members could lead to confusion affecting their ability to make informed decisions. Increased demand on the Pension Administration Team means that there may be insufficient capacity to cope. It may be necessary to recruit additional staff which will have a financial cost. However, with the impact of McCloud and the exit payment reforms, the level of expertise required is far greater and recruiting adequate numbers of suitably experienced and able staff could be difficult; other local authorities will all be looking to recruit and they may be more attractive to possible candidates given Croydon's current financial situation in terms of the Section 114 notice.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department and our Pensions Admin Software provider, Aquila Heywood. Sourcing interim calculation software from Hymans. Recruiting staff to fill existing vacancies.	3	5	15	Once we have clarity from central government, providing staff training and guidance, implementing temporary mechanisms for calculating benefits whilst awaiting software updates, ensuring the admin team is adequately resourced to deal with the increased complexity arising from these changes, communicating with scheme employers and reviewing the process and timescales for providing estimates.	3	4	12

Key

Below 10 is considered a Green Risk.	Impact is measured on a scale of 1 to 5.
A score between 10 and 19 is an Amber Risk.	A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be catastrophic.
A score of 20 or above is a Red Risk.	Likelihood is also measured on a scale of 1 to 5.
	In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be almost certain to happen.

Risk Matrix

LIKELIHOOD	IMPACT 1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
5 Almost Certain	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Rare	1	2	3	4	5

This page is intentionally left blank

REPORT TO:	**Local Pension Board** **8 July 2021**
SUBJECT:	**Review of Board and Committee Training Plan**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATION

1.1 The Board is asked to note the contents of the Pension Fund Training Plan and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 This report sets out the proposed training plan for the Pension Board and the Pensions Committee for the current year (2021 to 2022) and invites the Board to comment.

3 DETAIL

3.1 In their Governance Review AON Hewitt recommended that the scope of the Knowledge and Skills Policy be extended to the Pensions Committee and Officers, as well as to the Pensions Board. They further recommended that the policy should incorporate knowledge of the work of the London Collective Investment Vehicle (London CIV) and have regard to CIPFA guidance. The policy was agreed on 17 March 2020 (Minute 26/20)

3.2 Following the introduction of Markets in Financial Instruments Directive (MiFID II) in January 2018, a Fund, as a collective, must be able to demonstrate sufficient expertise, experience and knowledge to satisfy financial institutions that it is capable of making investment decisions and understanding the nature of potential risks by ensuring that levels of expertise, experience and knowledge are maintained to satisfy the MiFID II requirements. Even though administration of LGPS Pension Funds have an exemption this remains a useful benchmark.

3.3 All Officers, Pension Board Members, Pension Committee Members and Reserves charged with the financial administration and decision-making with regard to the Fund must be fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. All members and officers are expected continually to demonstrate their personal commitment to training and to ensuring that the knowledge and skills objective is met. The levels of knowledge required are SET OUT IN Table 1, as follows:

Table 1: Levels of Knowledge Required by CIPFA Guidance

Technical Area	Officers	Committee	Board
Pensions Legislation LGPS Regulations	C	B	C
Public Sector Pensions Governance	C	B	C
Pensions Administration	E	B	C
Pensions Accounting and Auditing Standards	E	C	C
Financial Services Procurement and Relationship Management	E	C	C
Investment Performance and Risk Management	E	C	B
Financial Markets and Product Knowledge	C	C	B
Actuarial Methods, Standards and Practices	C	C	B

KEY:

Basic Knowledge	B
Conversant (Working Knowledge)	C
Expert	E

All training opportunities take these requirements into account when offered to Pension Board and Committee members.

3.4 The CIPFA technical guidance has a framework of eight areas of knowledge and skills identified as the core requirements:

- pensions legislation;
- pensions governance;
- pension accounting and auditing standards;
- pensions administration;
- pension services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

3.5 The Competency self-assessment matrix responses received from the Board were used to highlight gaps in in skills or areas for further development. Three of these areas have been included on the training plan.

3.6 In order to provide greater coverage of the framework areas of knowledge and skills, officers have investigated training options offered by external providers AON Hewitt and Hymans Robertson. Both offerings covered the main aspects of the

knowledge areas. The AON Hewitt offering was restricted to sessions held on particular dates with limited access after the event to those registered who could not attend on the date. The Hymans offering is an on-line interactive application that is accessible at any time. Modules can be completed and reports are provided to Officers for monitoring purposes. The costs of both offerings were broadly comparable, with AON having a cap at £5000.00 and Hymans having a sliding scale of charges depending on how many individuals are covered. It has been decided that 40 licenses will be required at a cost of £6000.00 pa plus VAT. Due to the flexibility of access offered by the Hymans system, along with their plans to add further modules going forward, it was felt that this was a better offering and this is the system that has been chosen.

3.7 Officers are undertaking work to produce a Croydon Specific Induction document to provide to Members of the Pension Board and Committee as required.

3.8 Members of the Committee and Board are required to complete a training attendance feedback form after completing any training or attending any training event which should be sent to the governance team for recording. The form asks members to provide comments and ratings which can be used to inform further training planning.

3.9 All training costs are a charge on the Pension Fund and not the Council.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of “personal data?”

No

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

---

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None.

Appendix A

Training Plan

Training Plan 2021/22

Event	Details	Date	Offered to	Form
The Pension Regulator Toolkit	Introducing Pension Schemes	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	The Trustee's Role	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	Running a Scheme	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	Pensions Law	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	An Introduction to Investment	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	How a DB Scheme Works	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	Funding your DB Scheme	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	DB Recovery Plans, Contributions and Funding Principles	As required	All Board, Committee and Reserves	On line
The Pension Regulator Toolkit	Investment in a DB Scheme	As required	All Board, Committee and Reserves	On line
Competancy Self Assessment Matrix	Form to be completed	Start Financial Yr	All Board, Committee and Reserves	Email
LGE Fundamentals Course	Legal structure of LGPS	12/10/21	All Board, Committee and Reserves	On line or Venue
LGE Fundamentals Course	Investment framework of the LGPS	09/11/21	All Board, Committee and Reserves	On line or Venue
LGE Fundamentals Course	Duties and Responsibilities	02/12/21	All Board, Committee and Reserves	On line or Venue
LGA Annual Conference	Updates	20/01/22	All Board, Committee and Reserves	At Venue
		21/01/22		
LGPS Local Board Annual Event		23/06/21	All Board	Webinar
Hymans Module 1	Introduction	As required	All Board, Committee and Reserves	On line or Venue
Hymans Module 2	Governance & Regulators	As required	All Board, Committee and Reserves	On line or Venue
Hymans Module 3	Administration & Management	As required	All Board, Committee and Reserves	On line or Venue
Hymans Module 4	Funding & Actuarial Matters	As required	All Board, Committee and Reserves	On line or Venue
Hymans Module 5	Investments	As required	All Board, Committee and Reserves	On line or Venue
Hymans Module 6	Current Issues	As required	All Board, Committee and Reserves	On line or Venue
Induction Training	Hymans Modules	As required	All Board, Committee and Reserves	On line
	Key Documents	As required	All Board, Committee and Reserves	On line
	Croydon Specific Presentation	To Be Arranged	All Board, Committee and Reserves	
Planned Hymans Additions				
Good Governance	Good Governance	As required	All Board, Committee and Reserves	On line or Venue
Exit Cap Reform	Exit Cap Reform	As required	All Board, Committee and Reserves	On line or Venue
TPR Single Code of Practice	TPR Single Code of Practice	As required	All Board, Committee and Reserves	On line or Venue
Cyber Security	Cyber Security	As required	All Board, Committee and Reserves	On line or Venue
TCFD Reporting	TCFD Reporting	As required	All Board, Committee and Reserves	On line or Venue

Additional Training Opportunities

Policies	To Be Arranged				
Discretions	To Be Arranged				
Procurement	To Be Arranged				
Barnet Waddingham	Event Covers:	15/07/21	All Board, Committee and Reserves	Webinar	One session only required. Choice of 2 dates
	Overview of LGPS	28/10/21	All Board, Committee and Reserves	Webinar	One session only required. Choice of 2 dates
	LGPS				
	Stakeholders				
	Benefit Summary and Employee Costs				
	Employer Costs and Cost Caps				
	Governance				
PLSA	ESG Conference	30/06/2021 9.30am to 5.30 pm	All Board, Committee and Reserves	3 day on line conference	
		01/07/2021 9.00 am to 4.45 pm			
		02/07/2021 9.00 am to 4.30 pm			
SAB Website	Reference Information	As required	All Board, Committee and Reserves		
LGPS Regs Guides	Reference Information	As required	All Board, Committee and Reserves		
Mercers	TCFD Recording to view	As required			
Mercers	FIRM outcomes video	As required			
Bespoke Training					
Mercers		As required			
Hymans		As required			
Barnett Waddingham		As required			
CIPFA	Pensions Governance Workshop	27/07/21	All Board, Committee and Reserves	Online Workshop	
AON on demand webinars (various)		As required			
AON Webinar		12/07/21	All Board, Committee and Reserves	Webinar	

This page is intentionally left blank

REPORT TO:	**Pension Board** **8 July 2021**
SUBJECT:	**Review of Breaches Log**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATION

1.1 The Board 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 Board's consideration.

3 DETAIL

3.1 The Pension Act 2004 (PeA 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 Board last reviewed the Log, no items have been added to the log.

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

4. DATA PROTECTION IMPLICATIONS

4.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

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

---

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

BACKGROUND DOCUMENTS:
None

APPENDIX:
Appendix A: Breaches Log

This page is intentionally left blank

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 Board** **8 July 2021**
SUBJECT:	**Funding Strategy Statement (FSS) updates - Exit Credit and Employer Flexibilities Regulatory Amendments**
LEAD OFFICER:	**Nigel Cook Head of Pensions Investment and Treasury**

1. RECOMMENDATION

1.1 The Board is asked to note the proposed changes to the Funding Strategy Statement and the consultation on adopting that revised Statement.

2. EXECUTIVE SUMMARY

2.1 The Pension Committee, at its meeting of 25 May 2021 considered the changes introduced to the LGPS in respect of exit credits and the options for contribution reviews. This report also suggested how these changes could be reflected in the Funding Strategy Statement. The Committee instructed officers to undertake an employer consultation on these changes.

3 DETAIL

3.1 This report, considered by the Pension Committee on 25 May 2021 provides the background and a detailed analysis of changes proposed to the LGPS in respect of Exit Credits, Contribution Reviews and Exit Arrangements. This analysis describes the implications of these changes for the Funding Strategy Statement (FSS).

3.2 Appended to the report is a draft prepared by the Scheme's Actuary of a proposed London Borough of Croydon Pension Fund Funding Strategy Statement April 2021, updated from March 2020. The Committee agreed to adopt this draft and consult on this Statement with stake holders.

3.3 This report and the revised Strategy Statement are appended. To this report.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

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

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: FSS updates - Exit Credit and Employer Flexibilities Regulatory Amendments and Appendix A Revised Statement.

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.

Payment of cessation debt

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.

Consideration of surplus / exit credit

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.

Allowance for McCloud on cessation

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.

Actuarial basis on cessation

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.

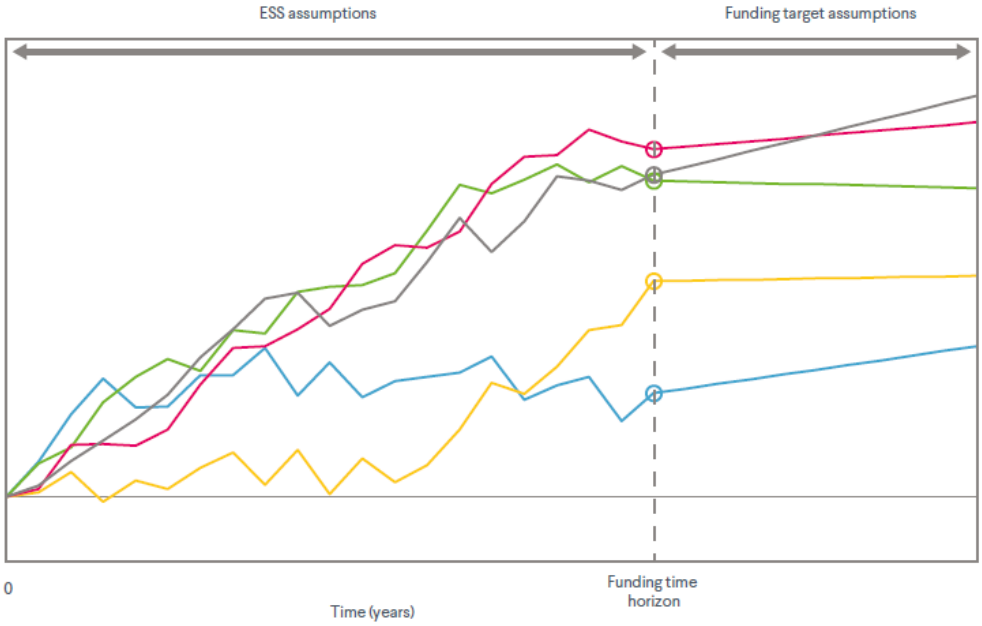
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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 Board** **8 July 2021**
SUBJECT:	**Local Government Pension Scheme Advisory Board / The Pensions Regulator Update**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

1.1 The Board are asked to note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report advises the Board of the matters currently being considered by the Local Government Pension Scheme Advisory Board and The Pensions Regulator which are relevant to the Fund.

3 DETAIL

3.1 Local Government Pension Scheme Advisory Board (SAB)

Boycotts, Divestment and Sanctions Bill

On 11 May, in the Queen's Speech, it was announced that a Bill will be introduced to stop public bodies from taking a different approach to UK sanctions and foreign relations policies when making purchasing, procurement and investment decisions.

Climate risk

On 27 January 2021 a policy consultation response and Consultation regulations entitled "Taking action on climate risk: improving governance and reporting by occupational pension schemes" was launched and ran until 10 March 2021. The regulations do not cover the LGPS but regulations are expected from MHCLG substantially to mirror these requirements.

Employer Flexibilities Guidance Published

On 2 March 2021 MHCLG published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on employer flexibilities introduced in September 2020.

Exit payments and 95k cap

On 10 March 2021 the guides for Administering Authorities and Employers on the lgpsregs site were updated to take account of the revocation regulations and the

requirement for payment of interest on exit payments by employers.

On 4 March 2021 MHCLG issued a letter to authorities withdrawing its letter of 28 October 2020.

On 25 February 2021 revocation regulations were laid.

On 17 February 2021 guides on lgpsregs were updated.

On 12 February 2021 HMT directions disapplied parts of the exit cap regulations effectively switching off the cap in England.

On 28 October 2020 a letter was sent from the Local Government minister to all administering authorities, in respect of the implementation of the public sector exit payment regulations from 4th November 2020. The SAB was also sent a copy of the letter and considered its contents alongside legal advice it had received.

On 15 October 2020 the Exit Cap regulations were made.

Good Governance – Final Report

On 8 February 2021 the Board agreed that "Good Governance – Final Report" be published and that the Board's action plan be submitted to the Local Government Minister for consideration. The action plan comprises those matters that would fall to MHCLG for implementation, those that would fall to the Board and others to implement and those items identifying and promoting existing best practice which can be implemented without further agreement. The report and action plan can be accessed at https://www.lgpsboard.org/

Indexation

On 23 March 2021 HM Treasury published its "Response to the Guaranteed Minimum Pension Indexation Consultation" which ran from October to December 2020. The response sets out that the Government has decided to discount conversion as a long-term policy solution for equalisation and make full GMP indexation the permanent solution for public service pension schemes.

Lifetime Allowance Frozen

In the Budget on 3 March 2021 the Chancellor announced that the Lifetime Allowance ie the maximum amount of pension plus lump sum that can be drawn from a pension scheme without triggering an extra tax charge, would be frozen at its current level (£1,073,100) until April 2026.

McCloud response

On 13 May a "Written Ministerial Statement" was published setting out the high level objectives of Government in applying the remedy as required following the McCloud judgement.

On 11 May, in the Queen's Speech, it was announced that a "Public Service Pensions and Judicial Offices Bill" will be introduced that will deal with the amendments necessary to incorporate the McCloud judgement into public service pension schemes including the LGPS.

On 6 October 2020 the SAB published its final response to the MHCLG consultation.

Minimum Pension Age

On 11 February 2021 the Government launched consultation proposing that the minimum pension age be increased from 55 to 57 in 2028. The consultation runs until 22 April 2021.

Pensions Scheme Act 2021

On 11 February 2021 royal assent was received. Elements which will impact on the LGPS include climate risk reporting and the pensions dashboard.

Responsible Investment

On 28 April 2021 the Board Chair announced the launch of an online publication entitled "A-Z of Responsible Investment."

Scheme Annual Report

On 18 May 2021 the Chair of the Board announced that the "Scheme Annual Report" is now available on the Board website.

Social Investment

On 24 March 2021 a call for evidence entitled "Consideration of social risks and opportunities by occupational pension schemes" was launched by DWP running until 16 June. The consultation seeks views on the effectiveness of occupational pension scheme trustees' current policies and practices in relation to social factors, how trustees understand social factors and how they seek to integrate considerations of financially material social factors into their investment and stewardship activities.

3.2. The Pensions Regulator (TPR)

TPR has a wider remit than the SAB and most of its recent publications / press releases have concerned private sector schemes. Its only recent "statement" of immediate relevance to the LGPS was Guidance on Covid-19 published on 16 September 2020. However two of its recent "statements" are likely to be important to the LGPS.

On 17 March 2021 TPR issued a consultation document on a proposed new code of practice, mainly dealing with the governance and administration of pension schemes, that will replace 10 of their existing codes.. The "existing codes" include Code of Practice 14 which applies to the LGPS. The consultation period ended on 26 May 2021 and the new Code is expected later in the year.

In a press release on 7 April 2021 TPR announced the publication of a new "Climate Change Strategy" ahead of proposed regulations which will require trustees of larger schemes to maintain oversight of, and make mandatory disclosures in relation to, climate risks. Whilst the LGPS may not be immediately and directly affected by the proposed regulations TPR indicate that they will monitor developments affecting the LGPS as the MHCLG intends to consult on the recommendations of the international

“Taskforce on Climate-related Financial Disclosures” later this year

On 26 May 2021 TPR published its “Annual Funding Statement 2021” in which it headlined that “Trustees of defined benefit pension schemes must remain alert to the risk of weakening employer covenants as uncertainties remain following a challenging year for businesses.”

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of ‘personal data’?

No.

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

---

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None.

REPORT TO:	**Pension Board** **8 July 2021**
SUBJECT:	**Renewal of Governance Consulting Contract.**
LEAD OFFICER:	**Nigel Cook Head of Pensions Investment and Treasury**

1. RECOMMENDATION

1.1 The Board is asked to note the outcome of this process.

2. EXECUTIVE SUMMARY

2.1 This report outlines the process by which the Governance Consultancy contract, awarded through the National LGPS Framework, has been extended by one year.

3 DETAIL

3.1 The Croydon Pension Fund procures professional services – Investment Management Performance and Cost Monitoring and Reporting Services; Actuarial and Benefits Consultancy Services; Legal Services; and Governance Consultancy Services – through the National LGPS Framework. This procurement framework is an agreement put in place with a provider or range of providers that enables buyers to place orders for services without running lengthy full tendering exercises. Frameworks are based on large volume buying. Aggregating different buyers' potential needs means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions. The National LGPS Frameworks are multi-provider, allowing several qualified providers to be on the framework. Procurement framework agreements are OJEU compliant, removing the need to independently undertake a full European Union (OJEU) procurement process, as this has already been done as part of setting up the framework. Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the framework to meet their own local requirements.

3.2 The Actuarial, Benefits and Governance Consultancy Services Framework is broken down into 4 lots and the governance review exercise falls under Lot 3, Governance Consultancy. In order to undertake a review of the governance arrangements in place for the Croydon Fund the National Framework was accessed and Aon selected from the bidders for this exercise. The original contract was awarded under delegated authority by the Head of Pensions and Treasury, given the value was under £100k. This contract ran from April 2017 for a period of 4 years. For a number of reasons, including significant disruption to the administration of the Council caused by the publication of a Report in the Public Interest and the issuance of a Section 114 Notice, and the impact of the COVID pandemic, it has not been possible to either conclude the governance review or undertake a draw down from the Framework.

3.3 To resolve this problem, conclude the governance review and retain the services and advice of Aon Croydon, as the administering authority and under delegated authority of the Head of Pensions and Treasury (given the value is under £100k), has written to Aon confirming an extension to the contract. The contract has been extended up to 31 March 2022 which will be sufficient time to bring to a conclusion the work relating to the Governance Review.

3.4 The Board is asked to note that the London Borough of Croydon as the Administering Authority for the London Borough of Croydon Pension Fund has chosen to extend its contract with Aon for the provision of Governance Consultancy Services for a further one year from 1st April 2021. The Terms and Conditions of the extended contract are as set out in the contract that was effective from 1 April 2017 with the exception of the expiry date, which is extended until 31st March 2022.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

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

---

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

None

REPORT TO:	**Pension Board** **8 July 2021**
SUBJECT:	**Reporting and Monitoring Contributions 2020/21**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATION

1.1 To note this report.

2. EXECUTIVE SUMMARY

2.1 This report reminds the Board of its previous discussions in relation to the monitoring and payment of contributions by employers into the Pension Fund. It advises them of the position in relation to financial year 2020/21.

3 DETAIL

3.1 At their meeting on 25 March 2021 the Board received a report entitled "Reporting and Monitoring Contributions."

3.2 They were advised that The Pensions Regulator had produced a Checklist to be used "to evaluate how effectively your scheme manages contributions." The Appendix to this report details the checklist as relevant, completed for the Fund's administration. The Fund confirms that it is able to record compliance with each requirement. Detailed records to support the assessments are maintained

3.3 The Board were particularly interested as to whether any employers were in arrears, in particular if this was in excess of 60 days, and, if so, whether a list could be provided. Officers answered that, whilst it is not always straightforward to define whether an employer is in arrears, a report would be presented to the next meeting of the Board and to each one in the future. The Board therefore decided as follows:

***RESOLVED**:*

*I. The Board **AGREED** to note the contents of the report.*

II. That officers compile a simple arrears list to be presented at the next meeting.

3.4 This report advises the Board in respect of contributions monitoring of payments received reconciled to schedules for the period 2020/21

3.5 Whilst there has been some correspondence over the year with some of the employers, all schedule contributions have been received and there is nothing to be reported to the Board.

3.6 The Board are invited to note this report.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of “personal data?”

No

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

---

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

BACKGROUND DOCUMENTS:
None

APPENDIX:

The Pensions Regulator: Managing Contributions Checklist – completed

Public service

Managing contributions checklist

Use this checklist to evaluate how effectively your scheme manages contributions.

Action	Notes	Yes/No
Do you have effective procedures to identify the late payments of contributions?	The process should enable you to monitor and resolve payment issues, and report payment failures on an ongoing basis.	Yes. Monitoring sheet in place and uploaded to Sharepoint. Sheet updated as payments received. Any late payments are investigated.
Do you regularly review these procedures?	Consider if you need to put further procedures in place to ensure that you manage contributions effectively. If yes, how often?	Yes – review is ongoing as matters arise or more efficient practice is identified.
Do you have a contributions monitoring record in place?	A contributions record should include: • contributions rates • due dates when contributions are to be made • rate of interest payable where contributions are late.	Yes. Rates included (employer percentage). Always due 19th of the month. Separate calculation sheet for interest.
Do you regularly monitor payments against the payment schedule/ contributions monitoring record?	If yes, how often?	Yes - monthly
Do you have access to information that will enable you to monitor contributions?	This will include information on contributions to be paid and employer information.	Yes – schedules / valuation / monitoring records.
Do you have processes in place to monitor payment information between the scheme, employer and member?		Yes – emails and schedules.
If your scheme uses a service provider, do you have in place a process to receive information on payment contributions?		N/A

Do you have procedures to assess why a late payment has occurred?	The procedure should enable you to identify whether a legitimate late payment has occurred.	Yes - emails.
Do you keep records of investigations into late payments?		Yes - emails.
Do you have procedures to report materially significant late payments to us?	This will help to provide evidence that contributions are being effectively monitored	Yes – “Breaches” processes

If you have answered no to any of these questions, you should review your processes to ensure that they are fit for purpose.