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The Royal Borough Windsor & Maidenhead

NOTICE

OF

MEETING

BERKSHIRE PENSION FUND PANEL

will meet on

MONDAY, 7TH NOVEMBER, 2016

at

4.00 pm

In

ASCOT AND BRAY - TOWN HALL,

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JACK RANKIN, JOHN LENTON (CHAIRMAN), GEOFF HILL, DAVID HILTON (VICE-CHAIRMAN) AND JOHN COLLINS

ADVISORY MEMBERS: CLLR KHAULA USMANI, CLLR GLENN DENNIS, CLLR STANTON, CLLR WORRALL, SUE NICHOLLS, CLLR LAW, PATRICK FULLER AND ASIA ALLISON

Karen Shepherd - Democratic Services Manager
Issued: 25/10/2016

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator

Fire Alarm - In the event of the fire alarm sounding or other emergency, please leave the building quickly and calmly by the nearest exit. Do not stop to collect personal belongings and do not use the lifts. Congregate in the Town Hall Car Park, Park Street, Maidenhead (immediately adjacent to the Town Hall) and do not re-enter the building until told to do so by a member of staff.

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AGENDA

PART I

ITEM	SUBJECT	PAGE NO
1.	APOLOGIES To receive any apologies for absence.	-
2.	DECLARATIONS OF INTEREST To receive any declarations of interest.	5 - 6
3.	MINUTES To approve the Part I minutes of the meeting held on 12th September 2016.	7 - 10
4.	THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016 To consider the report.	11 - 18
5.	PENSION RISKS OF DELIVERING SERVICES DIFFERENTLY To consider the report.	19 - 36
6.	LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC To consider passing the following resolution:- “That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on item 9 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act"	

PARTII

ITEM	SUBJECT	PAGE NO
7.	MINUTES To approve the Part II minutes of the meeting held on 12th September 2016. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	37 - 38
8.	ACTION TRACKING To note the Action Tracker. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	39 - 40
9.	LGPS INVESTMENT POOLING UPDATE To consider the report. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	41 - 46
10.	INVESTMENT WORKING GROUP MINUTES 16 SEPTEMBER 2016 To note the Investment Working Group Minutes of 16th September 2016. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	47 - 52
11.	ABSOLUTE RETURN PORTFOLIO To consider the report. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	53 - 56
12.	INVESTING IN REAL ASSETS To consider the report. ***(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)***	57 - 70

MEMBERS' GUIDANCE NOTE

DECLARING INTERESTS IN MEETINGS

DISCLOSABLE PECUNIARY INTERESTS (DPIs)

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
    a) that body has a piece of business or land in the area of the relevant authority, and
    b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

PREJUDICIAL INTERESTS

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

DECLARING INTERESTS

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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BERKSHIRE PENSION FUND PANEL

MONDAY, 12 SEPTEMBER 2016

PRESENT: Councillors John Lenton (Chairman), Geoff Hill, David Hilton and John Collins

ADVISORY MEMBERS: Councillors Dennis, Stanton, Mrs Sue Nicholls.

INDEPENDENT ADVISER: Mr Dhingra.

OFFICERS: Mr Greenwood, Mr Taylor, Mr Pardo and Mr Cook.

APOLOGIES

Apologies for absence were received by Cllr Rankin, Cllr Law, Cllr Worrall and Mr Dhingra.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

Resolved unanimously: That the Part I minutes of the meeting held on 11th July 2016 were approved as a true and correct record.

ANNUAL REPORT & FINANCIAL STATEMENTS TO 31 MARCH 2016

The Berkshire Pension Fund Manager informed the Panel that the accounts had been audited so the Panel could not change any of the financial information, however any grammatical errors could be altered.

The Chairman questioned if Cllr Hill's Panel attendance record was correct as it was showing as zero attendance and if Cllr Love's appointment to the Panel should be included. It was agreed that the Panel clerk would check and inform the Berkshire Pension Fund Manager.

Cllr Stanton mentioned that the document made reference to the Fund's newsletter but he had never received one. The Panel were informed that the newsletter was available on the Fund's website and that when future copiers were issued the Panel would be sent the link.

Cllr Hilton mentioned that on page 30 of the agenda it said that the 'administrator to scheme member ratio (1:4,386) is well above average', he asked if we knew what the average was. The Panel were informed that any reference to the ratio would be removed as it had been many years since the benchmarking.

The Panel were also informed that the financial statements within the report were also included within the RBWM Audited Accounts.

Resolved unanimously: That the Fund's annual report and financial statement for the year to 31st March 2016 be approved and published.

LGPS INVESTMENT POOLING - LOCAL PENSIONS PARTNERSHIP

The Berkshire Pension Fund Manager informed the Panel that discussions with The Local Pensions Partnership (LPP) were ongoing but there had been little progress since last reported to the Panel.

The Panel were informed that LPP had reviewed Berkshire's pension administration costs with Lancashire's and conclude that there would be few short term administration cost savings available however there would be increased resilience. Officers were currently awaiting the revised draft legal agreement.

Cllr Hill asked if we were so efficient would this be a basis for not having to enter a 'Pooling' arrangement and was informed that officially this was not possible; however legacy and local investments should not be pooled. Officers would be meeting with Fund Managers to discuss this.

Cllr Hill asked if we invested in Maidenhead development projects if this therefore would be outside pooling. The Panel were informed that this would be outside pooling and investment opportunities were being investigated.

Cllr Stanton asked if once the legal document was signed would it be binding and was informed that it would however due diligence would be undertaken before any contract was signed.

Cllr Hill asked if we were forced to continue with pooling when would we loose control of local investments and when does it have to be implemented. The Panel were informed that pooling needed to be in place by 1st April 2018 with all liquid assets equity and bonds being transferred. The Pension Panel would remain responsible for its investments strategy.

Cllr Stanton asked if LPP had agreed to the list of conditions put together by the Panel Chairman and was informed that the majority had been accepted although there were issues regarding the request to hold 10% of our assets to be managed locally as this was outside guidelines.

Cllr Stanton asked if the final agreement would be brought back to Panel and was informed that it would, we have issued a letter of intent but this was not binding. It was noted that even after savings there would be additional costs of £1.1 million, that officers over 55 may take redundancy and that a local manager may be maintained to manage legacy investments.

Cllr Hill asked what would happen to the current Pension Fund Manager if we joined LPP and raised concern that if we did retain 10% for local investment we would have lost our local expertise to LPP. The Panel were informed that there was an assumption that the Pension Fund Manager would join LPP however as yet he had not seen evidence of a role he would want and his preference would e to stay with RBWM.

The Chairman reported that he had not seen any benefits to pooling for the Panel or the funds members. The Fund needed 4.5% above inflation on its investments and he did not see this being met by Government infrastructure investments. He mentioned that MPs had similar pensions but were not being ask to pool and that the authority would be lobbying local MPs.

The Panel noted the update.

STEWARDSHIP REPORT

The Panel considered the report that report dealt with the stewardship of the Pension Fund for the period 1 April 2016 to 30 June 2016 (pages 7 to 9 updated to 31 July 2016).

The Panel were informed that the table on agenda page 153, Pension Fund key financial indicators, had an additional column added to show July's figures and it was expected that August would be the same.

It was noted that as RBWM had been using I-Connect all their data had been submitted on time. West Berkshire and Reading were looking to implement the system and officers had held talks with Wokingham; Cllr Stanton reported he would raise this with Wokingham.

The Panel noted the report.

RISK REGISTER

The Panel considered the latest Risk Register and were informed that since they last reviewed the report the following changes had been made:

PEN 016 – Failure to delegate duties appropriately. Reduced to low risk. Actioned following a paper received by Panel in January 2016 concerning the delegation of certain duties to Officers.

PEN 026 – Pooling of LGPS assets. This remains as a medium risk. The Fund has currently entered into negotiations with LPP as the preferred partner.

The Panel were also informed that PEN 004, failure to maintain a high quality member database, remained a high risk as it was related to the need to get the unitary authorities signed up to using I-Connect. Cllr Dennis questioned if I-Connect was an open system provider and was informed that it was a 'hub' between our system and users HR systems and the provider supplied the majority of LGP Funds.

The Panel were informed that with regards to PEN 025 the Pension Fund Manager continues to explore options for the implementation of an insurance policy to protect the Pension Fund.

It was agreed that when the report was brought back to the Panel that it should be the whole report presented today and not an exception report.

The Panel noted the Risk Register.

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on following items on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act.

The meeting, which began at 4.00 pm, finished at 5.20 pm

CHAIRMAN……………………………….

DATE…………………………………..........

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Report for: *INFORMATION*

The Royal Borough
Windsor & Maidenhead

Contains Confidential or Exempt Information	*NO - Part I*
Title	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	N/A
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	7 November 2016
Implementation Date if Not Called In	N/A
Affected Wards	N/A

REPORT SUMMARY

1. This report summarises the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Members are requested to note these regulations and their impact on the management of the Pension Fund.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?	
Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. These regulations are a statutory requirement	1 November 2016 (Implementation Date)

1. DETAILS OF RECOMMENDATIONS

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 These are statutory regulations which the Fund must comply with.

3 KEY IMPLICATIONS

3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were laid before Parliament on 23rd September 2016 and came into force on 1 November 2016. The main changes to the previous regulations are:

3.1.1 The removal of statutory limits for investment in types of investments

3.1.2 The introduction of a requirement to publish an Investment Strategy Statement by 1 April 2017

3.1.3 The addition of a power for Secretary of State to intervene with the Fund's Investment Strategy

3.2 The salient sections are:

3.2.1 Section 5 - The Fund may only borrow for up to 90 days for the purpose of paying benefits or to facilitate changes between "different types of investment". This is no change from the previous regulations.

3.2.2 Section 7 (new regulation) – The administering authority to formulate and publish an Investment Strategy Statement by 1 April 2017: The Investment Strategy must be in accordance with guidance issued from time to time by the Secretary of State and must include:

3.2.2.1 A requirement to invest fund money in a wide variety of instruments;

3.2.2.2 The authority's assessment of the suitability of particular investments and types of investments;

3.2.2.3 The authority's approach to risk, including the ways in which risks are to be assessed and managed;

3.2.2.4 The authority's approach to pooling investments, including the use of collective investment vehicles;

3.2.2.5 The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, de-selection, retention and realisation of investments; and

3.2.2.6 The authority's policy on the exercise of rights (including voting rights) attaching to investments.

3.2.2.7 In addition the statement must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The Panel agreed such limits at its meeting on 11 April 2016 (Investments – Asset Class Limits) and they are appended to this paper at Annex 1.

3.2.3 Officers will prepare a draft Investment Strategy Statement for review by the Investment Working Group for submission to Panel at its January 2017 meeting.

3.2.4 Section 8 (new regulation) – Gives the Secretary of State to intervene if he is satisfied that the authority is failing to act in accordance with guidance issued under Regulation 7.

3.2.5 Section 10 (new regulation) allows authorities to invest in collective schemes approved by the Treasury. This is the section that effectively enacts LGPS Investment Pooling.

4. FINANCIAL DETAILS

Financial impact on the budget

4.1 None

5. LEGAL IMPLICATIONS

5.1 The LGPS (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016.

6. VALUE FOR MONEY

6.1 N/A

7. SUSTAINABILITY IMPACT APPRAISAL

7.1 None

8. RISK MANAGEMENT

8.1 N/A

9. LINKS TO STRATEGIC OBJECTIVES

9.1 None

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 N/A

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

11.1 None

12. PROPERTY AND ASSETS

12.1 None.

13. ANY OTHER IMPLICATIONS

13.1 None

14. CONSULTATION

14.1 N/A

15. TIMETABLE FOR IMPLEMENTATION

15.1 The regulations came into force on 1 November 2016

16. APPENDICES

Attached

17. BACKGROUND INFORMATION

- The LGPS (Management and Investment of Funds) Regulations 2016.

Annex 1 – Agreed Asset Class Limits (11 April 2016)

Asset Class	Current %	Proposed Max %	Single Investment Limit % (of fund)
Bonds	**14.5**	**35**	**n/a**
"Conventional" Gilts	0.0	25	25% in any single issue
"Index-Linked" Gilts	1.4	25	25% in any single issue
Investment Grade Bonds	0.0	25	2% in any single issue
Non-investment grade bonds ("High Yield")	0.0	10	0.5% in any single issue or 5% in any single fund
Private Fixed Interest	9.6	20	5% in any single fund
Convertible Bonds	3.5	10	5% in any single fund
Equities	**43.6**	**60**	**n/a**
Developed World Listed Equities	21.6	40	5% in any single company
Emerging & Frontier Market Equities	11.7	25	5% in any single fund
Private Equity	10.3	15	5% in any single fund 0.5% in any single co-investment
Absolute Return ("Hedge Funds")	**18.4**	**20***	**2.5% in any single fund**
Infrastructure	**4.6**	**15**	**n/a**
Global Infrastructure Funds	4.6	10	2.5% in any single fund
UK Infrastructure	0	5	5% in any single fund
Commodities	**3.2**	**5**	**n/a**
Commodity funds	2.1	3	3% in any single fund
Single Commodity Exchange Traded Funds	1.1	2	2% in any single commodity
Property	**11.3**	**20**	**n/a**

UK Funds	3.9	5	5% in any single fund of funds
Global Funds	7.1	10	10% in any single fund of funds
Private Rented Residential	0.3	5	3% in any single development
Cash	**6.0**	**15**	**2% in any single "money fund"**

- ***Panel are requested to note that a proposal to reduce this limit to 5% is on the Agenda for this meeting***

Annex 2

Table of Limits on Investments

(Regulation 14(1) Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (now superseded)

Investment	*Column 1* *Limits under regulation 14(2)*	*Column 2* *Increased limits under regulation 14(3)*
1. Any single sub-underwriting contract	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	30%
4. The sum of— all loans (but see paragraph 1 below); and any deposits with— any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	—
5. All investments in unlisted securities of	10%	15%

companies.		
6. Any single holding (but see paragraphs 2 and 3 below).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting contracts.	15%	—
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

Report for: INFORMATION

Contains Confidential or Exempt Information	NO - Part I
Title	Pension Fund risks of delivering services differently
Responsible Officer(s)	Nick Greenwood, Pension Fund Manager
Contact officer, job title and phone number	Kevin Taylor Deputy Pension Fund Manager 01628 796715
Member reporting	N/A
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	7 November 2016
Implementation Date if Not Called In	N/A
Affected Wards	N/A

REPORT SUMMARY
1. This report summarises the potential pension risks of scheme employers transferring the delivery of services to the private sector and the impact this could have on the Pension Fund.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?	
Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. These should contain actual benefits to residents. If there are none (for example an internal process) Please say so.	N/A

1. DETAILS OF RECOMMENDATIONS

RECOMMENDATION: That Panel notes this paper and attached documents at Appendix 1.

2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 Where a scheme employer considers letting a service contract to an independent service provider the affected employees will normally transfer under a TUPE arrangement.

2.2 Whilst pensions are not covered by TUPE, best value authorities are required under the Best Value Staff Transfers (Pension Direction) 2007 to ensure that their transferring staff either have continued access to the LGPS through an admission agreement with the chosen independent service provider or to an alternative broadly comparable pension scheme as certified by the Government Actuary.

3 KEY IMPLICATIONS

3.1 Independent service providers upon admission to the Berkshire Pension Fund take on significant financial and administrative responsibilities. Whilst they will enter into a 'commercial contract' with the letting authority they will also enter into a three-way pension admission agreement between the letting authority, the service provider (as the new admission body) and the Royal Borough of Windsor & Maidenhead as the administering authority to the Berkshire Pension Fund.

3.2 As part of the service tender process, the letting authority is required to provide details of the pension costs associated with becoming an admission body to the Pension Fund. The Fund's actuary will produce a report for inclusion with the tender documentation which sets out the employer contribution rate required from the successful bidder upon becoming an admission body along with details of a bond or indemnity required to protect the Pension Fund against costs arising as a result of the admission agreement (service contract) terminating early. This will include underfunding (pension deficit), early retirement strain costs and unpaid contributions and other expenses associated with the premature termination of the admission agreement.

3.3 At the point the service contract comes to an end, or earlier if the last contributing scheme member leaves employment, the admission agreement will terminate and the actuary is required under the LGPS regulations to undertake a cessation valuation. This may, and is likely to, identify an exit payment payable by the admission body to the Pension Fund in order to pay for any deficit that has built up whilst the employer has been an admission body to the Fund.

3.4 It is important to note that when a group of employees TUPE transfer to a new employer that becomes an admission body to the Pension Fund, that new admission body is deemed to join the Fund as if it is 100% funded i.e. any deficit (or surplus) built up in the Pension Fund in respect of the transferring employees remains with the letting authority and does not pass to the new admission body.

3.5 However, any increase in that past service deficit during the lifetime of the service contract is met by the new admission body along with the future pension membership costs associated with those scheme members post-transfer of their employment.

3.6 Requirements set out under the LGPS regulations make it very clear what the responsibilities are of an admission body upon joining, and leaving, the Pension

Fund. These requirements are set out in the tripartite admission agreement completed at the start of the service contract. Most key to this is that the admission body will:

3.6.1 Pay the employer contributions at the rate certified by the Fund's actuary (as may be adjusted every three years as part of the triennial valuation exercise);

3.6.2 Arrange for a bond to the value set by the Fund's actuary to be in place throughout the contract period and as may be re-assessed by the actuary at any time (or alternatively provide a guarantor acceptable to the Pension Fund) ;

3.6.3 Make payment to the Pension Fund of any other additional costs identified throughout the period of the service contract; and

3.6.4 Make payment of any exit charge to the Pension Fund as assessed by the Fund's actuary at the termination of the admission agreement.

3.7 The costs identified in paragraph 3.6 can be considerable and will impact on a bidder's decision to apply for the service contract. When issuing their tender documentation the letting authority may choose to include details as to how they will deal with the issue of pension costs as part of their contract negotiations.

3.8 A letting authority can, as part of the service contract and therefore outside of the pension admission agreement, agree to retain or share the pension liabilities as identified by the actuary by an adjustment to the contract price. The letting authority could choose to pass all or none of the liabilities onto their chosen service provider or to come to an agreement to share those liabilities either though a 'pass-through' or a 'cap and collar' arrangement.

3.9 There are many ways in which an admission body may look to mitigate or limit exposure to the risks its participation in the LGPS will bring. It is for the letting authority to consider the level at which it feels comfortable in either retaining those risks or passing them onto the admission body.

4. FINANCIAL DETAILS

4.1 The financial risks to both the letting authority and the admission body can be considerable and are somewhat unquantifiable as the funding position of the admission body, and the Pension Fund as a whole, cannot be guaranteed as economic conditions change and investment returns vary over time.

4.2 There is a tendency at present for letting authorities to consider and agree to a full pass-through of liabilities. What this means is that an agreed rate of employer pension contribution is set between the letting authority and their chosen service provider as part of their service contract negotiations with any certified adjustments to the employer contribution rate being met by a variance in the contract price throughout the lifetime of the service contract.

4.3 Furthermore, there is currently an intention on behalf of the letting authority to retain all past and future pension liabilities and to agree to meet any deficit when the admission agreement comes to an end, whether or not that is commensurate with the termination of the service contract.

4.4 Recent experience shows that letting authorities are inclined to ignore the need for a bond/indemnity to be entered into or to at least restrict the value at which their chosen service provider will be expected to fund that bond.

4.5 In short, there is a recent trend for letting authorities to retain all of the pension risk and not to share or pass on any of the risk to the incoming admission body.

4.6 In addition, admission agreements tend to be closed. This means that only those individuals employed by the letting authority at the point of the service transfer retain the right to contribute to the LGPS whilst continuing to be employed in connection with service. No new employees appointed by the admission body can join the scheme.: Therefore:

4.6.1 The actual numbers of active scheme members diminish;
4.6.2 The actual amounts of employee and employer contributions paid to the Fund diminish;
4.6.3 The average age of the active members increases;
4.6.4 The numbers of deferred and pensioner members increases; and
4.6.5 The overall pension liabilities increase

4.7 The likely outcome of this situation is that the Pension Fund matures, the number of contributing members decreases, the number of deferred and pensioner members increases and scheme employers are required to pay increasing employer contributions and rising deficit recovery amounts.

5. LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory provisions required of all scheme employers including admission bodies.

6. VALUE FOR MONEY

N/A

7. SUSTAINABILITY IMPACT APPRAISAL

N/A

8. RISK MANAGEMENT

8.1 The risks identified throughout this paper fall mainly on letting authorities where business decisions can have future implications for the funding of pension liabilities.

9. LINKS TO STRATEGIC OBJECTIVES

9.1 This paper links to the Borough's current 'delivering Services Differently' policy.

10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

N/A

11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS

None.

12. PROPERTY AND ASSETS

None.

13. ANY OTHER IMPLICATIONS

None.

14. CONSULTATION

None.

15. TIMETABLE FOR IMPLEMENTATION

15.1 N/A

16. APPENDICES

- PLSA guides for employers participating in the LGPS
  - An Introduction to the LGPS for Scheduled Bodies;
  - Navigating Entry into the LGPS: For Local Government Contractors.

17. BACKGROUND INFORMATION

- The Local Government Pension Scheme Regulations 2013 (as amended) – Schedule 2, Part 3.

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PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

A GUIDE FOR EMPLOYERS PARTICIPATING IN THE LGPS

AN INTRODUCTION TO THE LGPS FOR SCHEDULED BODIES

CONTENTS

1. **Introduction** 4
   What is the LGPS? 4
   How is the LGPS funded? 5

2. **Risks for scheduled bodies participating in the LGPS** 7
   Increases to contributions 7
   Exit debts 8
   Cost of redundancies, ill health and death in service 8

3. **What you can do to manage these risks** 9
   Representation 9

1. INTRODUCTION

ACADEMIES, COUNTY COUNCILS, LONDON BOROUGHS, POST-92 UNIVERSITIES AND FURTHER EDUCATION COLLEGES PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AS 'SCHEDULED BODIES'[1]. THE NUMBER OF SCHEDULED BODIES HAS RAPIDLY EXPANDED IN RECENT YEARS WITH THE CREATION OF SCHOOL ACADEMIES. SCHEDULED BODIES HAVE AN AUTOMATIC RIGHT AND REQUIREMENT TO BE AN EMPLOYER IN THE LGPS.

The LGPS provides a positive benefit for its members; however, participating in the LGPS as a scheduled body comes with a range of potentially significant obligations including:

- Making regular contributions on behalf of employees and making additional contributions if the scheme is in deficit;
- Facilitating communications with scheme members;
- Setting up administrative processes for making payments; and
- Providing accurate and complete data to the scheme when requested.

This guidance will help you to obtain a full appreciation of these obligations and any associated risks.

Most scheduled bodies will not be in the process of joining the scheme. Later versions of this guidance that look at best practice for participating in the scheme and managing exit may be more relevant for you if you already have an understanding of your obligations to the LGPS. However, this guidance will be a useful introduction for those working in scheduled bodies that have not had any experience with the LGPS.

In addition, since many schools are in the process of transitioning into academies, many of them will be entering the scheme for the first time. This guidance will be particularly helpful for those would be-academies.

WHAT IS THE LGPS?

The LGPS is a defined benefit (DB) pension scheme for employees working in local government. It is made up of three schemes – the England and Wales scheme and two additional devolved schemes in Scotland and Northern Ireland.

Members of DB schemes are promised a guaranteed pension income in retirement. This means that the financial risk of the scheme's investment falls to you as an employer in the scheme.

The LGPS is governed at national and local level by a number of different bodies[2]. Scheduled bodies will mainly deal with the local pension fund managed by the local administering authority. You may also have the opportunity to engage with the Local Pensions Board. This is a board made up of an equal number of employer and member representatives and helps to ensure each scheme complies with its governance and administration requirements.

1 These are listed in Schedule 2 of the LGPS regulations.
2 See here for more information about how the LGPS is governed.

HOW IS THE LGPS FUNDED?

The LGPS is funded through the contributions of all employers and employees participating in the scheme. The contributions you pay are valued as an estimate of what the benefits are likely to cost in the future. These contributions are then invested to seek a return that can meet the promises made to members.

If the value of the pension scheme assets is not sufficient to meet the promises made to scheme members then the scheme is considered to be in deficit. If you exit the scheme, the cost of meeting the pension scheme liabilities that have accrued during the time of your participation may have decreased or increased.

The local administering authority acts as scheme manager and so is responsible for investing and managing LGPS assets, setting employer contribution rates, collecting employer and employee contributions, paying pension benefits as they fall due and dealing with various other aspects of administration.

The LGPS' funding position has weakened considerably over the last decade. A number of factors, such as increasing longevity and low gilt yields, have contributed to this, resulting in a rising deficit[3].

WHAT DO YOU NEED TO KNOW ABOUT THE SCHEME?

- The process of joining the scheme (if you are about to become an academy);
- Risks associated with participating in the scheme;
- How these risks might affect your financial prospects and how you can monitor and respond to them; and
- Your obligations as an employer participating in the scheme and how they could change in the future.

3 A full set of figures from the latest scheme valuation can be found here.

WHO IS RESPONSIBLE?

A number of people in your organisation need to be alert to the pension obligations associated with participating in the LGPS. These include, but are not limited to:

- Your HR department;
- Your finance director; and
- Those negotiating business restructures (such as mergers and acquisitions).

These individuals will need to monitor a number of risks that come with participating in the scheme, so that they can manage and mitigate them.

In larger organisations you may have the capacity to train up senior staff to find out and interpret essential information from the administering authority about your participation in the scheme. In smaller organisations this may need to be your finance personnel, chief executive or even an accountant, actuary or legal adviser.

Ultimately, where LGPS participation involves significant risk, your senior executive team or board will need to understand the implications of this. They may at times wish to seek expert advice.

KEY QUESTIONS TO ASK

- How many employees participate in the LGPS?
    - What are their ages, salaries and accrued benefits?
- Who will you engage with on pension issues at the administering authority?
- Is there any guidance available for scheduled bodies?
- What does the latest actuarial valuation of the fund tell you?
- What exposure to additional costs could arise due to redundancy, ill health and death in service?

2. RISKS FOR SCHEDULED BODIES PARTICIPATING IN THE LGPS

THE MAJOR UNFORESEEN COSTS THAT MAY COME WITH LGPS PARTICIPATION ARE:

- Increases in contributions; and
- Exit debts.

Your personnel listed in the previous section need to be alert to these risks and monitor them in the context of:

- Your current financial position including your reserve position;
- Your current workforce structure and how the balance of pension provision across the workforce interacts with your HR policy (in particular, if you participate in other defined benefit schemes); and
- Whether you have any guarantor provisions in place.

INCREASES TO CONTRIBUTIONS

There are a large number of variables that determine the cost of benefits as they accrue, including:

- Economic conditions;
- The investment profile of the fund assets;
- The current membership of the scheme; and
- Longevity projections for scheme members.

The interplay of these variables, and changes in them over time, can lead to substantial changes in employer contributions. By law, the fund will undergo an actuarial valuation every three years to assess how these factors will affect contributions. However, there are circumstances where an employer's contributions can be assessed outside of this cycle. This normally occurs when there is material change in an employer's circumstances eg where there has been a large number of redundancies.

During the valuation the actuary will recalculate:

- The past service contribution rate – in relation to the deficit or surplus; and
- The future service contribution rate – in relation to the current estimated cost of providing the benefits promised in the scheme.

Your contribution rates will be affected by the administering authority's view of your 'covenant'. This is your financial ability to support your obligations to the scheme now and in the future.

You should take part in discussions about your covenant strength as it is being established[4]. Indeed, the more you engage with the administering authority regarding key financial aspects that could affect your covenant, the less you are going to be surprised by the results.

It is important that you understand the rationale behind your allocated covenant strength, and what factors will improve or worsen your position. Higher contributions are required from an employer with a 'weak' covenant, because the administering authority has concerns about weaker employers' ability to pay if the deficit increases.

4 The Pensions Regulator provides helpful guidance on covenant assessment for private pension schemes – many of the same principles apply to employers participating in public service pension schemes.

EXIT DEBTS[5]

Exit debts are paid when you cease to participate in the scheme, and have the potential to be very high.

You are deemed to exit the scheme, otherwise known as 'a cessation event', when you no longer employ any active members in the scheme. A cessation event could occur if you cease to exist as an organisation, whether due to insolvency or a corporate restructure. It is therefore important to understand the implications of any corporate activity that might result in a business restructure and what implications this might have for exit costs. There may be ways of undertaking the same restructuring activity while isolating yourself from exposure to LGPS risk.

Exit debts are generally calculated using more cautious assumptions (known as a 'risk-free' basis) than the basis used to calculate the cost of providing pensions for your employees, resulting in higher liabilities. Calculating liabilities on this basis minimises the risk that deficits attributable to affected members inadvertently fall onto other employers as 'orphan liabilities'.

COST OF REDUNDANCIES, ILL HEALTH AND DEATH IN SERVICE

When an employee is made redundant or suffers ill health, they may be eligible for early retirement benefits from the LGPS. If an employee dies in service then their beneficiaries are due a sum that is a multiple of their salary. Some funds make their own insurance provisions for these purposes so that the employer rate includes a small amount intended to cover these costs.

5 Please see our 'managing exit' guidance for further information.

3. WHAT YOU CAN DO TO MANAGE THESE RISKS

THERE IS LITTLE YOU CAN DO TO ACTIVELY MANAGE THESE RISKS AS YOU HAVE NO SCOPE FOR NEGOTIATING THE TERMS ON WHICH YOU PROVIDE PENSIONS TO YOUR EMPLOYEES AS A SCHEDULED BODY (COMPARED TO ADMISSION BODIES FOR EXAMPLE). IT IS THEREFORE VERY IMPORTANT THAT YOU UNDERSTAND AND ASSESS THESE RISKS, AND THEN MONITOR THEM AND DEVELOP CONTINGENCY PLANS FOR RESPONDING TO ANY CHANGES[6].

If you are a school and about to become an academy and, after having assessed the financial implications of participating in the scheme, are concerned about the implications for your financial viability going forward, you should contact the Department of Education as your ultimate sponsor. If you participate in a group structure, you should also engage the parent body in that group.

REPRESENTATION

You can influence the strategic direction of the fund, its treatment of employers and its investment profile through the work of the local pensions board[7]. Any employer participating in the scheme may be nominated to sit on their local pensions board. It is worthwhile finding out what opportunities there might be for representation either in person, or by establishing relationships with board members.

6 While The Pensions Regulator's guidance on integrated risk management is aimed at trustees of private schemes, it is a useful framework for setting contingency plans for risks that are ultimately outside of your control.
7 Please see guidance from the Scheme Advisory Board on Local Pensions Boards.

NOTES

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Agenda Item 7

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Agenda Item 11

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