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NOTICE

OF

MEETING

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Royal Borough of Windsor & Maidenhead

BERKSHIRE PENSION FUND PANEL

will meet on

MONDAY, 12TH NOVEMBER, 2018

at

4.00 pm

In

COUNCIL CHAMBER - TOWN HALL, MAIDNEHEAD

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JOHN LENTON (CHAIRMAN), DAVID HILTON (VICE-CHAIRMAN), RICHARD KELLAWAY AND MALCOLM ALEXANDER

ADVISORY MEMBERS: CLLR PRESTON BROOKER, TONY JONES (READING), MARK BUTCHER, CLLR WORRALL, CLLR LAW, PATRICK FULLER AND ASIA ALLISON

Karen Shepherd - Service Lead – Governance
Issued: 02/11/2018

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 **David Cook,** david.cook@rbwm.gov.uk

Accessibility - Members of the public wishing to attend this meeting are requested to notify the clerk in advance of any accessibility issues
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AGENDA

PART I

PART II - PRIVATE MEETING

MEMBERS' GUIDE TO DECLARING INTERESTS IN MEETINGS

Disclosure at Meetings

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a DPI or Prejudicial Interest. If a Member has already disclosed the interest in their Register of Interests they 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 the discussion or vote at a meeting.** The speaking time allocated for Members to make representations is at the discretion of the Chairman of the meeting. In order to avoid any accusations of taking part in the discussion or vote, after speaking, Members should move away from the panel table to a public area or, if they wish, leave the room. If the interest declared has not been entered on to a Members' Register of Interests, they must notify the Monitoring Officer in writing within the next 28 days following the meeting.

Disclosable Pecuniary Interests (DPIs) (relating to the Member or their partner) 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 licence 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 **<u>or</u>** (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.

<u>Any Member who is unsure if their interest falls within any of the above legal definitions should seek advice from the Monitoring Officer in advance of the meeting.</u>

A Member with a DPI should state in the meeting*:* ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Or, if making representations on the item: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Prejudicial Interests

Any interest which a reasonable, fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs the Member's ability to judge the public interest in the item, i.e. a Member's decision making is influenced by their interest so that they are not able to impartially consider relevant issues.

A Member with a Prejudicial interest should state in the meeting*:* ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote****.'*

Or, if making representations in the item: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

Personal interests

Any other connection or association which a member of the public may reasonably think may influence a Member when making a decision on council matters.

Members with a Personal Interest should state at the meeting: ***'I wish to declare a Personal Interest in item x because xxx'. As this is a Personal Interest only, I will take part in the discussion and vote on the matter.***

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BERKSHIRE PENSION FUND PANEL

MONDAY, 17 SEPTEMBER 2018

PRESENT: Councillors John Lenton (Chairman) and David Hilton (Vice-Chairman)..

Advisory Members: Councillor Worrall, Councillor Brooker, Councillor Law and Mr Butcher.

Officers: Philip Boyton, David Cook, Kevin Taylor and Rob Stubbs. Local Pension Partnership (LPP) representatives Chris Rule, Richard J. Tomlinson, Pedro Pardo and Martin Pattinson.

APOLOGIES

Apologies for absence were received by Cllr Kelleway, Cllr Alexander and Cllr Jones.

DECLARATIONS OF INTEREST

Councillor Brooker declared a personal interest on the agenda items as he was a governor at schools that paid into the pension fund as this was not a Disclosable Pecuniary Interest he stayed and considered the items.

MINUTES

The Part I minutes of the meeting held on 16 July 2018 were approved as a true and correct record.

PENSION FUND PANEL WORK PLAN - 2018-19

The Deputy Pension Fund Manager introduced the report that sought the approval of the following updated policy statements:

- Communications Strategy
- Cash Management Strategy
- External Managers Due Diligence Policy
- Investment Philosophy
- SLA between RBWM and the Pension Fund

The Panel were asked to approve suggested amendments, make any further recommendations and to decide if any of the policies now come under the remit of LPP. The approved policies would be published on the pension fund's website.

The Panel were informed that the Communications Strategy had been updated last year but had been brought back to approve further updates to bring it in line with GDPR legislation. The Panel approved the updated strategy.

The Panel were asked if the Cash Management Strategy now sat with LPP. The Panel felt that the strategy should still be retained and could be a conduit to hold LPP to account. The management of cash remained the responsibility of the administering authority with LPP monitoring how much cash was being held and advise on investment opportunities. It was agreed that the Borough's cash management policy was sufficient to meet the administering authority's requirements. It was noted that there was a current build-up of cash, up to about 10% of the Fund's assets, this was due to pooling negotiations and the Pension Fund Manager being signed off.

With regards to the External Managers Due Diligence Policy it was recommended that this was no longer required and should be brought back in 6 months' time showing different governance arrangements now that pooling was in place. It was noted that the current investment managers were appointed by the IWG. For future appointments by LPP it was important to be shown that LPP undertook the appropriate due diligence. It was suggested that LPP bring to Panel an annual due diligence report.

It was recommended that the Investment Philosophy be combined with the Investment Strategy.

The Panel were informed that the SLA between RBWM and the Pension Fund had also been updated in line with GDPR legislation, the updates were approved.

Resolved unanimously: that the report be noted and that:

1. **Approves the reports and suggested updates.**
2. **Approves the publication of the amended policy statements on the Berkshire Pension Fund Website.**

PENSION FUND ANNUAL REPORT AND ACCOUNTS

The Deputy Pension Fund Manager introduced the report that presented the Fund's annual accounts that needed to be published by 1st December 2018. It was noted that further editing was required and an updated page 58 regarding financial performance was circulated.

In response to questions the Panel were informed that following the reconciliation review overpayment had been highlighted that benefited the Fund by about £600,000, that investment management expenses had increased since last year because it was performance related and that there would be a review of the amount budgeted for administrative costs and how RBWM were paid for services such as HR so the right amount was set.

Resolved unanimously that: the Panel notes the report and:

1. **Authorised officers to correct any typographical and drafting errors and to insert the Auditors report upon receipt.**
2. **Approves publication of the final version of the Fund's Annual Report and Accounts by the statutory deadline of 1 December 2018.**

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 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………………………………..........

Report Title:	**Pension Fund Panel Work-plan**
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 12 November 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report brings to Members' attention a number of Administering Authority policy statements for review as set out in the work-plan for 2018/19 approved by Members at the meeting on 16 July 2018.
2. Members are asked to consider the items listed in appendix 1 to this report and suggest any amendments or approve the policy statements as required.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Approves the policy statements set out in Appendix 1 to the report having put forward any suggested amendments to those policy documents.
ii) Request that officers produce and publish the approved policy statements on the Berkshire Pension Fund website.

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 In accordance with Regulation 53 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") and as listed in Part 1 of Schedule 3 of the Regulations, RBWM is an Administering Authority (Scheme Manager) required to maintain a Pension Fund for the Scheme.

2.2 An Administering Authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate Administering Authority under the Regulations.

2.3 The Pension Fund Panel as set out in RBWM's Constitution acts as the Scheme Manager and is therefore responsible for ensuring that the Administering Authority fulfils its statutory responsibilities in accordance with the Regulations and the Public Service Pension Act 2013

2.4 The purpose of this paper is to identify for Panel members a number of policies for their consideration and review as set out in the work-plan for 2018-19 in order to meet certain Administering Authority statutory requirements set out in the Regulations.

3 KEY IMPLICATIONS

3.1 The Administering Authority (Scheme Manager) is required by law to maintain the Royal County of Berkshire Pension Fund is accordance with the Regulations and all other associated legislation. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where he deems it to have failed in areas of scheme governance, risk management and administration.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Not applicable.

5 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority.

6 RISK MANAGEMENT

6.1 Failure to maintain the Pension Fund in line with statutory legislation could result in a scheme member or scheme employer reporting the Administering Authority to the Pensions Regulator for failing to fulfil its statutory responsibilities.

7 POTENTIAL IMPACTS

7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in a loss of confidence in the Administering Authority.

8 CONSULTATION

N/A

9 TIMETABLE FOR IMPLEMENTATION

9.1 **Implementation timetable**

Date	Details
12 November 2018	1 - Administering Authority Decisions Policy; 2 -Reporting Breaches of the Law Policy and procedure; 3 - Risk Management Policy 4 - Risk Assessment Register.
14 January 2019	1 – Governance Compliance Statement; 2 – Pension Administration Strategy 3 – Audit Reports (if available)
11 March 2019	1 – Abatement Policy 2 – Funding Strategy Statement 3 – Investment Strategy Statement 4 – Pension Fund Business Plan 2019-20

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 – Administering Authority Decisions Policy
  Reporting Breaches of the Law Policy and Procedures
  Risk Management Policy
  Risk Assessment Register

11 BACKGROUND DOCUMENTS

11.1 Local Government Pension Scheme Regulations 2013 (as amended)
11.2 Public Service Pensions Act 2013
11.3 The Pensions Regulator's Code of Practice No. 14

12 CONSULTATION (MANDATORY)

Name of consultee	**Post held**	**Date issued for comment**	**Date returned with comments**
Cllr John Lenton	Chairman – Berkshire Pension Fund Panel		
Rob Stubbs	Section 151 Officer		

Administering authority decisions

No.	Regulation	Administering Authority Discretion	Administering Authority Decision
1	**LGPS13**: 3(5) & Sch. 2, Part 3, para. 1	Whether to agree to an admission agreement with a body applying to become an admission body other than where a body as defined in paragraph 1(d) must be admitted providing they undertake the requirements of the regulations.	Report to be submitted to the Pension Fund Panel for approval subject to an employer covenant review being undertaken.
2	**LGPS13**: 16(1)	Whether the administering authority deems it inappropriate for a scheme member to pay APCs over a period of time due to the contribution being very small.	Pension Fund Panel have set an agreed minimum level of contribution whereby the scheme member will be required to pay APC as a lump sum - £100.
3	**LGPS13**: 16(10)	Whether to require a scheme member to have a medical (at their own expense) in order to satisfy the administering authority of their reasonably good health before agreeing to the scheme member's application to pay APCs/SCAPCs (Shared Cost Additional Pension Contributions).	Require a medical in circumstances where a scheme employer has already taken action to investigate the scheme member's possible ill health retirement.
4	**LGPS13**: 17(12)	To whom any AVC fund should be paid upon the scheme member's death.	To follow scheme member's expression of wish where appropriate. If non-contentious delegate to officers for a decision or report to the Pension Fund Panel where decision could be contentious.
5	**LGPS13**: 22(3)(c)	Pension accounts to be kept in a form as considered appropriate.	Pension accounts to be maintained in line with regulatory and pension software requirements.
6	**LGPS13**: 32(7)	Whether to extend beyond three months the time limits within which a scheme member must give notice of the wish to draw benefits	To restrict the time limit to three months as set out in regulation.

		before normal pension age or upon flexible retirement.	
7	**LGPS13**: 34(1)	Whether to commute the payment of a small pension into a trivial commutation lump sum within the meaning of section 164 of the Finance Act 2004.	To commute upon request from the scheme member in line with the rules and limits imposed by HMRC.
8	**LGPS13**: 36(3)	Whether to approve or not a scheme employer's choice of Independent Registered Medical Practitioner (IRMP).	Approval delegated to officers.
9	**LGPS13**: 38(3)	Whether a deferred member of a former employer that no longer exists meets the criteria for release of deferred benefits due to permanent ill health and the likelihood of not obtaining gainful employment before normal pension age or within three years, whichever is sooner.	Potentially contentious cases to be reported to Pension Fund Panel for a decision otherwise delegated to officers.
10	**LGPS13**: 38(6)	Whether a suspended tier-3 ill health pension should be reinstated upon request from a deferred pensioner member of a former employer that no longer exists where that member is unlikely to be capable of undertaking gainful employment before normal pension age.	Potentially contentious cases to be reported to Pension Fund Panel for a decision otherwise delegated to officers.
11	**LGPS13**: 40(2), 43(2), 46(2) & **TP14**: 17(5) to (8)	To whom a death grant should be paid following the death of a scheme member.	To follow scheme member's expression of wish where appropriate. If non-contentious delegate to officers for a decision or report to the Pension Fund Panel where decision could be contentious.
12	**LGPS13**: 49(1)(c)	To determine the benefit payable to a scheme member, in the absence of an election from the scheme member, where the scheme member is entitled to a benefit under 2 or more of the regulations in respect of the same period of membership.	Delegated to officers who will pay the benefit most beneficial to the scheme member.

13	**LGPS13**: 54(1)	Whether to establish an "admission agreement fund" in addition to the "main fund".	Not to establish a separate fund.
14	**LGPS13**: 59(1) & (2)	Whether to produce and publish a written pension administration strategy and the matters to be included.	To produce and publish a pension administration strategy.
15	**LGPS13**: 64(2A); 64(2B); 64(2C)	Whether to issue a written suspension notice to an exiting employer to suspend that employer's liability to pay an exit payment for up to 3 years where the administering authority considers it reasonable that the exiting employer will appoint one or more active members during the period specified in the suspension notice.	Delegated to officers to identify exiting scheme employer's and to issue a suspension notice and report to the Pension Panel on the action taken.
16	**LGPS13**: 64(4)	Whether to obtain a revised rates and adjustment certificate from the pension fund Actuary where it is considered that a scheme employer will become an exiting employer.	Delegated to officers to identify those scheme employer's with a poor covenant and report to the Pension Fund Panel on action taken.
17	**LGPS13**: 68(2)	To require a scheme employer to make a strain (capital) cost payment to the pension fund in all cases where a scheme employer's decision results in the immediate release of a scheme member's benefits because of flexible retirement, redundancy or retirement due to business efficiency.	In all cases the scheme employer will be required to make payment of a strain (capital) cost in full and within 21 days of receipt of an invoice from the scheme manager.
18	**LGPS13**: 69(1)	To consider the frequency that payments of contributions should be made to the pension fund by scheme employers and whether scheme employers should make a contribution towards to the cost of administration.	Payments required by the 19^{th} day of the month following deduction in accordance with statutory regulations. Currently no administration charges are made.

19	**LGPS13**: 69(4)	To consider the form and frequency of information required from a scheme employer to support the payment of contributions.	Delegated to officers. Failures by scheme employers to meet requirements to be reported to the Pension Board.
20	**LGPS13**: 70 & **TP14**: 22(2)	Whether to recover sums from a scheme employer where additional costs have been incurred because of the scheme employer's unsatisfactory level of performance.	Pension administration strategy provides details of when notices of unsatisfactory performances will be issued to scheme employers and reported to the Pension Fund Panel and Pension Board.
21	**LGPS13**: 71(1)	Whether to charge interest on payments received from a scheme employer later than prescribed in the pension administration service level agreement or the pension administration strategy.	Instances to be reported to the Pension Fund Panel and Pension Board as part of a stewardship report for decision and where considered material, invoice to be raised, sent to scheme employer and reported to the Pensions Regulator.
22	**LGPS13**: 76(4)	To determine the procedure to be followed at stage 2 of the IDRP and the manner in which the exercise of those procedures should be undertaken.	The appointed adjudicator at stage 2 of the IDRP is the Head of Finance for the administering authority who will seek advice and guidance from relevant officers and the Pension Board before making a determination.
23	**LGPS13**: 79(2)	Whether to appeal to the Secretary of State against a scheme employer's decision, or lack of decision, on a question arising under regulation 72 of LGPS13 (first instance decisions).	Cases to be reported to the Pension Fund Panel and Pension Board as part of a stewardship report but decision delegate to officers.
24	**LGPS13**: 80(1)(b) & **TP14**: 22(1)	To specify the format in which information supplied by a scheme employer is provided to the administering authority.	Delegated to officers who provide all standard forms and spreadsheets to scheme employers to assist them in providing all information required to enable the administering authority to discharge its scheme functions.

25	**LGPS13**: 82(2)	Whether to pay out in full or part a death grant due from the Pension Fund without having to obtain grant of probate or letters of administration where the value does not exceed that specified in section 6 of the Administration of Estates (Small Payments) Act 1965.	Delegated to officers for a decision where non-contentious but referred to the Pension Fund Panel where decision could be contentious.
26	**LGPS13**: 83	Whether, where a person appears to be incapable of managing their affairs by reason of mental disorder or otherwise, to make payment of benefits to another person.	Delegated to officers for a decision where non-contentious but referred to the Pension Fund Panel where decision could be contentious.
27	**LGPS13**: 98(1)(b)	Whether to agree to bulk transfer payments where two or more scheme members' membership ends on their joining a different registered pension scheme.	Delegated to officers who will in all instances seek the advice and guidance of the pension fund Actuary.
28	**LGPS13**: 98(4)(a)	Whether to determine that the amount set aside for a bulk transfer should be in cash or in assets or both.	Delegated to officers who will in all instances seek the advice and guidance of the pension fund Actuary.
29	**LGPS13**: 100(6)	Whether to extend the normal time limit for acceptance of a transfer value beyond 12 months from date scheme member joined the LGPS.	Delegated to officers as Scheme employers are required to include a statement in their discretions policy and where it is agreed to extend beyond the 12 month period the administering authority will endorse the scheme employer's decision unless it is clearly identified that such a decision would be detrimental for the Pension Fund.
30	**LGPS13**: 100(7)	Whether to allow the transfer of relevant pension rights into the pension fund.	To permit the transfer of relevant pension rights for credit to the member's pension account.
31	**LGPS13**: 106(6)	To determine the procedures applicable to a local pension board.	Terms of reference set out in the Council's Constitution.

32	**LGPS13**: 107(1)	To determine the membership of the local pension board and the manner in which members may be appointed and removed.	Approved by Pension Fund Panel.
33	**LGPS13**: 108(1)	To determine the method by which to confirm that a member of the pension board does not have a conflict of interest.	Set out in Council's code of conflict policy.
34	**LGPS13**: Sch. 1 & **TP14**: 17(9)	In accordance with definition of eligible child determine whether to treat a child as being in continuous education or vocational training despite a break.	Pensions payable to eligible children will continue to be paid during breaks in education or training of up to one year.
35	**LGPS13**: Sch.1 & **TP14**: 17(9)(b)	In accordance with definition of cohabiting partner determine the evidence required to confirm financial dependence of a cohabiting partner on a scheme member or financial interdependence of cohabiting partner and scheme member.	Delegate to officers for a decision where non-contentious or to the Pension Fund Panel where decision could be contentious. Pension Fund Panel to consider an Affadavit to be signed by cohabiting member.
36	**LGPS13**: Sch. 2, Part 3, para. 9(d)	To determine the right to terminate an admission agreement under circumstances listed in regulation.	Report to be submitted to the Pension Fund Panel.
37	**LGPS13**: Sch. 2, Part 3, para 12(a)	To consider definition of the term "employed in connection with the provision of the service or assets".	Must be continuously employed for a minimum of 50% of the time in connection with the provision of the service or assets as referred to in the admission agreement.
38	**TP14**: 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) & **B07**: 10(2)	In respect of a scheme member who retains a right to have the use of the average of 3 years pay for final pay purposes, to determine, should the member die before making an election, whether to make that election on behalf of	Delegated to officers to calculate and apply the best option for the scheme member's dependants.

		the deceased scheme member.	
39	**TP14**: 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) & **T08**: Sch. 1 & **LGPS97**: 23(9)	In respect of a scheme member who retains a certificate of protection of pension benefits under former regulations to determine should the member die before making an election as to the use of that certificate, whether to make an election on behalf of the deceased scheme member.	Delegated to officers to calculate and apply the best option for the scheme member's dependants.
40	**TP14**: 10(9)	In the absence of an election from a scheme member within 12 months of ceasing a concurrent employment, to determine, where the scheme member has more than one on-going employment, to which pension account the ceasing employment benefits should be aggregated.	Delegated to officers to calculate and apply the best option for the member.
41	**TP14**: 12(6)	Whether to use a certificate produced by an IRMP under the LGPS2008 for the purposes of making an ill health determination under the LGPS2013 in respect of a scheme employer that no longer exists.	Delegated to officers to make the necessary determination on a case by case basis.
42	**TP14**: 15(1)(c) & **T08**: Sch. 1 & **LGPS97**: 83(5)	Whether to extend the time period for capitalisation of ongoing added years contracts still in force under previous regulations.	Delegated to officers to make the necessary determination on a case by case basis.
43	**TP14**: 15(1)(d) & **A08**: 28(2)	Whether to charge a scheme member for the provision of an estimate of additional pension that would be provided for by the scheme in return for the transfer of in house AVC funds (where the arrangement was entered into before 1 April 2014).	No charge to be applied.
44	**TP14**: Sch. 2, para. 2(5)	Whether to require a strain (capital) cost to be paid "up front" by a scheme employer following their decision to	A scheme employer must make payment of a strain (capital) cost to the pension fund in full and "up front" on

		waiver any actuarial reduction to benefits under the 85-year rule.	every occasion that such a cost arises.

In the above table the statutory references relate to the following regulations where indicated:

LGPS13: The Local Government Pension Scheme Regulations 2013 (S.I. 2013 No. 2356)[1]

TP14: The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014 No. 525)[2]

A08: Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008 No. 239)[3]

LGPS97: Local Government Pension Scheme Regulations 1997 (SI 1997 No. 1612)[4]

B07: Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007 No. 1166)[5]

T08: Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008 No. 238)[6]

[1] http://www.legislation.gov.uk/uksi/2013/2356/contents/made
[2] http://www.legislation.gov.uk/uksi/2014/525/contents/made
[3] http://www.legislation.gov.uk/uksi/2008/239/contents/made
[4] http://www.legislation.gov.uk/uksi/1997/1612/contents/made
[5] http://www.legislation.gov.uk/uksi/2007/1166/contents/made
[6] http://www.legislation.gov.uk/uksi/2008/238/contents/made

Approved by the Berkshire Pension Fund Panel: 12 November 2018
Next review date: November 2019

THE ROYAL COUNTY OF BERKSHIRE PENSION FUND

REPORTING BREACHES OF THE LAW

The Pensions Regulator

CONTENTS

1 INTRODUCTION

The Local Government Pension Scheme (LGPS) is a public service pension scheme which is highly regulated not only by scheme regulation but also by wider-reaching legislation.

In Berkshire the LGPS is governed by the Royal Borough of Windsor & Maidenhead as the administering authority (scheme manager) to the Royal County of Berkshire Pension Fund. The general powers and duties of the administering authority lie with the Pension Fund Panel as set out in Part 6 Section D of the Council's Constitution. The Pension Fund Panel is assisted by the Pension Fund Advisory Panel and also the Pension Board established in accordance with the Public Service Pensions Act 2013 and Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

A Local Government Pension Fund has a different legal status when compared to trust based schemes in the private sector and so the Royal County of Berkshire Pension Fund does not have, in the strictest meaning, trustees. However, those making decisions on behalf of the administering authority are required, in many ways, to act as if they were trustees in terms of their duty of care.

Following a review of public service pension provision by Lord Hutton of Furness in 2011, a number of recommendations were made to the Government on how to ensure that public service pension schemes remain sustainable and affordable in the future. These recommendations were carried forward into the Public Service Pensions Act 2013 resulting in changes to the LGPS regulations with effect from 1 April 2014.

The result of all of this is that the LGPS, and public service pension schemes in general, are now under greater scrutiny than ever before. The Public Service Pensions Act 2013 introduced the framework for the governance and administration of public service pension schemes and provided an extended regulatory oversight to the Pensions Regulator.

2 THE REQUIREMENT TO REPORT BREACHES OF THE LAW

Under Section 70 of the Pensions Act 2004 (see below), certain people are required to report breaches of the law to the Pensions Regulator where they consider that they have a reasonable cause to believe that a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with and that failure to comply is likely to be of material significance to the Pensions Regulator in the exercise of its functions.

Not all breaches need to be reported to the Pensions Regulator, only those where there is likely to be a material significance, but all breaches should be recorded and retained for future reference.

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;
- (aa) a member of the pension board of a public service pension scheme;
- (b) a person who is otherwise involved in the administration of an occupational or personal pension 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. *(i.e. Duty to report overrides other obligations like duty of confidentiality, except where legal professional privilege applies)* This is subject to section 311 (protected items). *(Deals with exemption for legal professional privilege).*

(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.

3 WHO IS REQUIRED TO REPORT BREACHES OF THE LAW?

Those people who are subject to the reporting requirement ('reporters') for public service pension schemes is set out in Section 70 of the Pensions Act 2004 but in practical terms it is necessary for a senior officer of the administering authority to have responsibility for the management and execution of these procedures. Whilst any suspected breach should, where appropriate, be reported to a Senior Officer of the Pension Fund for escalation, the designated officer with overall responsibility for reporting breaches to the Pensions Regulator is the s.151 Officer for the administering authority or where the s.151 Officer is unavailable (or in the unlikely event of being implicated in the breach) the Monitoring Officer for the administering authority.

All reporters need to take due consideration as to who could be implicated in the perceived breach of the law when reporting their findings and ensure that the perceived breach is not worsened by making any individual or individuals who may be implicated in the breach of the law aware that a report is to be made.

4 WHAT MUST BE REPORTED?

Those responsible for reporting breaches of the law to the Pensions Regulator will need to consider when they have reasonable cause to believe there has been a breach that is likely to be of material significance to the Pensions Regulator.

Reasonable Cause

Having reasonable cause means more than merely having a suspicion that cannot be substantiated. For example, a suspicion that scheme assets may have been misappropriated may in fact be a direct result of something out of the Fund manager's control such as drop in the stock market leading to investment returns being lower than anticipated.

Any reporter must ensure that they know the full facts of the suspected breach and may need to check with members of the Pension Board, the Scheme Manager or anyone else they consider to be in a position to confirm the events leading up to the suspected breach of the law. However, reporters need to take care as to who they discuss their suspicions with where they have a cause to believe that theft, fraud or other serious offences may have occurred as they would not want to alert those potentially implicated or hinder the actions of the police or a regulatory authority. In such cases the Pensions Regulator should be contacted without delay.

Whilst a reporter should endeavour to fully understand the legal position regarding a suspected breach, they do not have to gather all of the evidence that the Pensions Regulator may require before taking legal action especially where a delay in reporting the breach could exacerbate or increase the risk of the breach.

Material significance

What is of material significance can be considered from four aspects:

1. Cause – dishonesty, poor governance or administration, poor advice, acting (or failing to act) in deliberate contravention of the law;
2. Effect – if the matter appears to be the effect of non-compliance with the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations, poor administration, inaccurate payments or theft;
3. Reaction to the breach – if no prompt and effective action has been taken to deal with the breach and to identify and tackle the causes so as to minimise the risk of recurrence;
4. Wider implications – if the breach suggests wider undetected problems.

To be able to consider these aspects all people who have a legal requirement to report breaches of the law, as set out in section 3, will need to ensure that they have sufficient knowledge and understanding of the pension law and regulations that govern the LGPS.

In forming a view as to whether or not the breach is of material significance reporters will need to consider other breaches of which they are aware but be careful to ensure that any such breaches have not already been addressed and resolved.

The aim of the Pensions Regulator is to protect the benefits of pension scheme members, reduce calls upon the Pension Protection Fund and to promote good administration of work-based pension schemes. Therefore, the following are important elements that the Pensions Regulator may consider to be of material significance:

- The right money is paid into the Scheme at the right time;
- Assets are appropriately safeguarded;
- Payments out of the Scheme are legitimate, accurate and paid at the right time to the right person(s);
- The Scheme Manager is complying with the legal requirements of Scheme funding;
- The Scheme Manager is properly considering their investment policies and investing in accordance with them;
- The Scheme is being administered properly in accordance with Scheme regulations;
- Appropriate records are maintained and are accurate;
- Scheme members receive accurate, clear and impartial information without delay.

The Pensions Regulator will not normally regard a breach as material if the Scheme Manager has taken prompt and effective action to investigate and resolve a breach and put in place the necessary procedure to ensure that such a breach will not reoccur.

However, the Pensions Regulator will be concerned where the Scheme Manager has failed to act promptly and effectively to identify, resolve and remedy the causes for the breach. If the proper corrective action has not been taken the Pensions Regulator is likely to deem the impact as material.

The wider implications of a breach are the concern of the Pensions Regulator where the fact that the breach has occurred in the first place will make it more likely that future breaches will arise because the Scheme Manager lacks the appropriate skills and knowledge needed to fulfil the requirements of their role.

A traffic light framework, as supplied by the Pensions Regulator, has been set up as a reference tool for reporters considering whether breaches of the law have a material significance and so should be reported to the Pensions Regulator. This framework document should be used by all reporters and continually updated as breaches are identified. It provides possible investigation outcomes and requires the reporter to consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach being considered. This document will be made available to all persons responsible for reporting breaches of the law as part of Pension Board meetings.

A breach will be in the red category and therefore must always be reported to the Pensions Regulator, because one or more of the following apply:

- It was caused by dishonesty, poor scheme governance, poor advice or by deliberate contravention of the law;
- Its effect is considered to be significant;
- Inadequate steps have been taken to put matters right;
- It has wider implications.

A breach will be in the green category, and will not need to be reported to the Pensions Regulator but should be recorded, because one or more of the following apply:

- It was not caused by dishonesty, poor scheme governance, poor advice or by deliberate contravention of the law;
- Its effect is NOT significant;
- Proper steps are being taken to put matters right;
- It does NOT have wider implications.

A breach will be in the amber category when it is not obviously either red or green. The decision whether or not to report will require a balanced judgement based on the cause, effect, reaction and wider implication of the case under consideration. Other previous reported or unreported cases may be relevant when coming to a decision whether to report or not and consideration needs to be given to the adequate oversight and controls adopted by the scheme manager.

Examples of red, amber and green breaches are set out in the traffic light framework and must be referred to each time a breach of the law is suspected.

5 PROCEDURES FOR REPORTING BREACHES OF THE LAW

Anyone who has a responsibility to report breaches of the law during the course of their association with the Scheme should be alert to the potential for breaches to occur and to have properly established procedures in place to enable them to evaluate any potential breaches and the need to report them.

The Pension Fund keeps a 'register of breaches of the law' in which all breaches must be recorded regardless of whether or not they are or ever have been reported to the Pensions Regulator. This register is available to all responsible persons and forms part of the agenda for meetings of the Pension Board.

The flowchart at Annex 1 to this guide sets out the steps to be taken when considering breaches of the law but the details are also described in this section of the guide.

The following steps should be taken:

1. If the person suspecting the breach is not designated to deal with breaches they should inform a designated person immediately taking due consideration of who could be implicated in the case. The designated person is the s.151 officer for the administering

authority or in the event that the s.151 is not available or indeed is implicated in the breach, the Monitoring Officer for the administering authority.

2. A designated person should investigate if there is a reasonable cause to believe a breach has occurred by firstly checking the register and the traffic light framework by contacting a Senior Officer of the Pension Fund.

3. If the designated person has no reasonable cause to believe that a breach has occurred there is no duty to report the case to the Pensions Regulator.

4. The designated person should clarify the facts around the suspected breach and obtain any clarification of the law that may be required, liaising with other appropriate people as considered necessary with due regard to who could be implicated in the case.

5. Consider whether the breach is likely to be of material significance to the Pensions Regulator. If it is considered to be very serious it must be reported immediately to the Pensions Regulator. If this is the case a written report can be preceded by a telephone call to the Pensions Regulator on 0870 6063636. Any breach that is so serious that it must always be reported to the Pensions Regulator will always be recorded as a red category breach in the register. If the breach is considered not to be of material significance to the Pensions Regulator and is a clear cut green breach then it does need to be reported to the Pensions Regulator but should be recorded as a green category breach in the register.

6. If the breach is considered to be red, but not so serious that it needs to be notified to the Pensions Regulator immediately, a report should be sent to the Pensions Regulator as soon as is reasonably practicable ensuring that any delay will not result in the breach becoming more serious thereby incurring the risk of the Pensions Regulator issuing a civil penalty (see section 7 of this guide). Good practice would provide that such a case is reported within 10 working days.

7. If the breach is considered to be an amber breach (not a clear cut red or green breach) further consideration needs to be given to the case by further considering the context of the case and how it relates to the principles of cause, effect, reaction and wider implication. Good practice would provide that such a case is dealt with within 20 working days.

8. It may be that the breach needs to be referred to the appropriate level of seniority at which decisions can be made on whether to report to the Pensions Regulator but consider who may be implicated in the breach of the law when discussing your suspicions with other individuals.

9. If the breach is a particularly difficult case seek input from relevant experts. This may require a sub-committee of the Pension Board to be appointed to discuss the events leading up to the reporter's suspicion that a breach of the law may have occurred.

10. Keep in mind the appropriate timeframe for submitting a report to the Pensions Regulator (i.e. green cases do not need reporting, red cases should be reported immediately or if not within 10 working days and amber cases should be considered and acted upon within 20 working days and where ultimately deemed to be in the red category, reported immediately or within 10 working days, at the point within that timeframe, that a decision has been made).

11. Once the decision has been made that the breach falls into the red category, submit a report on the breach to the Pensions Regulator in accordance with the guidance provided in section 6.

12. If it is decided that the breach is not of material significance and so should not be reported to the Pensions Regulator update the register and close the case.

13. Where a report has been submitted to the Pensions Regulator, the reporter must ensure that they receive an acknowledgement from the Pensions Regulator within 5 working days of submitting the report. If not, the reporter should contact the Pensions Regulator to ensure that the report has been received.

14. Ensure that the register is updated at each stage of the process so that the case can be monitored and dealt with effectively and efficiently.

NOTE: The register is held by the Pension Fund. All updates to the register should be made by the reporting officer in conjunction with a Senior Officer of the Pension Fund taking into account who may be implicated in the breach.

6 HOW SHOULD REPORTS BE MADE?

All reports of material breaches must be made in writing to the Pensions Regulator as soon as is reasonably practicable. They should be sent preferably to the Pensions Regulator via its online system, 'Exchange' at www.tpr.gov.uk/exchange, but can be sent by post to The Pensions Regulator, Napier House, Trafalgar Place, Brighton, BN1 4DW, or electronically to customersupport@thepensionsregulator.gov.uk or by fax to 0870 2411144.

The report should be dated and include as a minimum the following details:

- Full name of the scheme;
- Description of the breach or breaches;
- Any relevant dates;
- Name of the Scheme employer and/or Scheme Manager (where known);
- Name, position and contact details of the person reporting the breach;
- The role of the person reporting the breach in relation to the Scheme.

Further information should be supplied wherever possible including for example:

- The reason the breach is thought to be of material significance;
- The address of the Scheme;
- The contact details of the Scheme Manager (The Royal Borough of Windsor & Maidenhead);
- Whether the concern has been reported before.

If the matter of concern is considered to be particularly serious a phone call (0870 6063636) can be made to the Pensions Regulator prior to the submission of a written report.

7 FAILURE TO REPORT A BREACH OF THE LAW

Failure by any person to comply with their obligation to report breaches of the law to the Pension Regulator is a 'civil offence' unless a 'reasonable excuse' can be given.

To decide if a report has a reasonable excuse for not reporting a breach, or reporting a breach later than would be expected, The Pensions Regulator may consider the following:

- The legislation, case law and codes of practice issued by the Pensions Regulator;
- The role of the reporter in relation to the Scheme;
- The training provided to the reporter and the level of knowledge that the reporter could reasonably be expected to have;

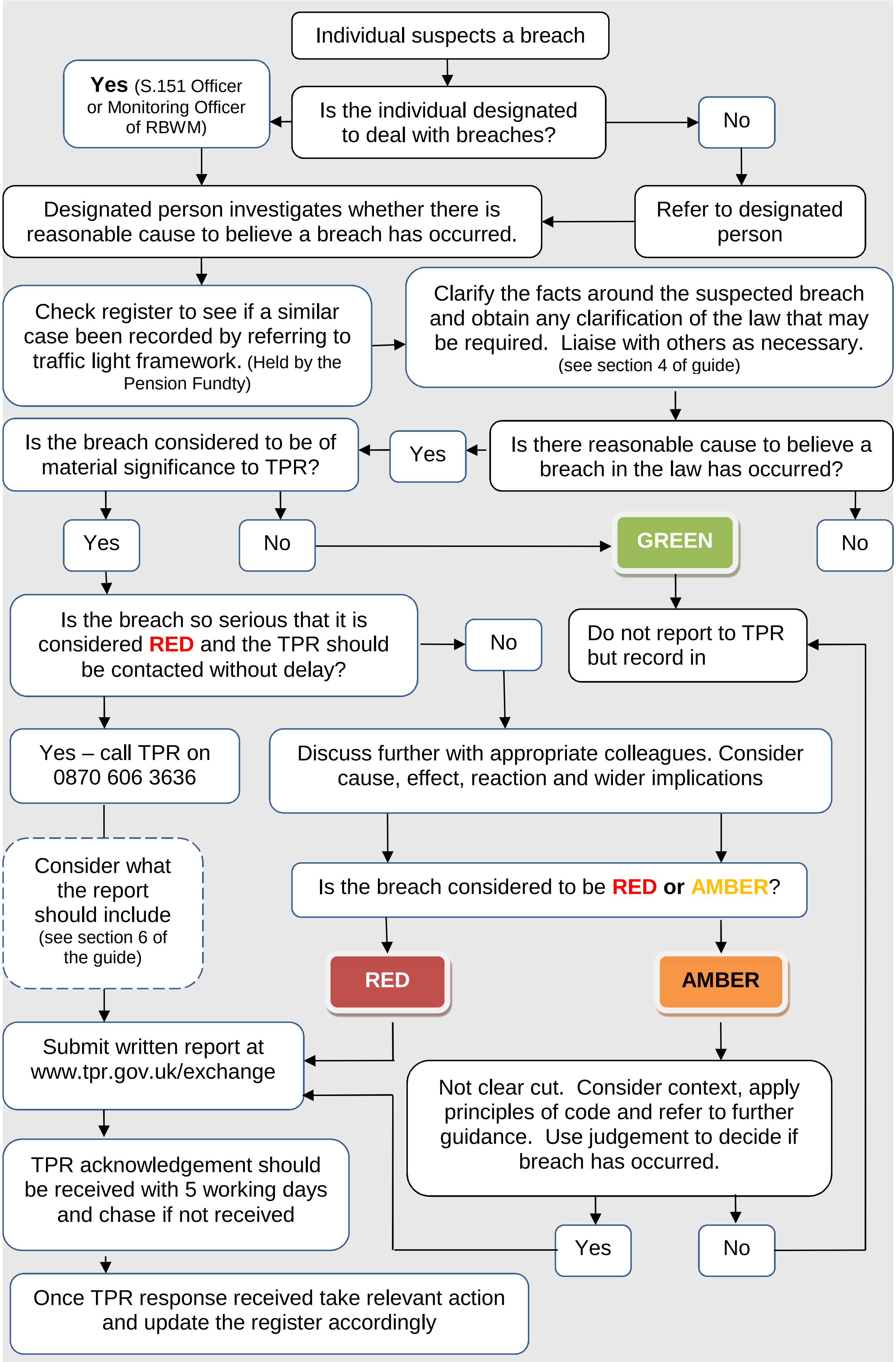
- The procedures put in place to identify and evaluate breaches and whether those procedures have been followed;
- The seriousness of the breach and whether or not the breach should have been reported immediately;
- Any reasons given for a delay in the report;
- Any other relevant considerations relating to the case in question.

If the Pensions Regulator considers issuing a civil penalty a warning notice will be sent to the affected party or parties identifying the alleged breach. In addition the Pensions Regulator may consider it appropriate to make a complaint to the reporters professional or other governing body.

Approved by the Pension Panel: 12 November 2018

Next Review Date: October 2019

ANNEX 1 – FLOWCHART - REPORTING BREACHES OF THE LAW TO TPR



ANNEX 2 – TEMPLATE BREACHES REGISTER

POTENTIAL INVESTIGATION OUTCOMES				
	CAUSE	EFFECT	REACTION	WIDER IMPLICATIONS
BREACH DETAILS				
DATE IDENTIFIED				
RED				
AMBER				
GREEN				
DATE REVIEWED BY RESPONSIBLE PERSON				
OUTCOME AND ACTION TAKEN				
NAME OF REPORTER AND DATE REPORTED TO TPR				
TPR RESPONSE				
ACTION TAKEN				

POTENTIAL INVESTIGATION OUTCOMES				
	CAUSE	**EFFECT**	**REACTION**	**WIDER IMPLICATIONS**
BREACH DETAILS	Failure to issue Annual Benefit Statements (ABSs) within the statutory deadline (31 August 2017) to Scheme members employed at schools within the Wokingham Borough Council (WBC) schools payroll currently run by a third party contractor Selima.			
DATE IDENTIFIED	1 September 2017			
RED				
AMBER				
GREEN	WBC's contracted payroll services have failed to provide required membership data.	Pension Fund has been unable to issue accurate and meaningful ABSs to the Scheme members affected.	Pension Fund has communicated this failing to WBC as the Scheme employer directly and via internal audit but as yet to no avail.	Pension Fund is failing in its statutory duties and runs the risk of being reported to TPR.
DATE REVIEWED BY RESPONSIBLE PERSON	22 January 2018			
OUTCOME AND ACTION TAKEN	Although around 2.5% of the Scheme membership has not received a 2017 ABS within the statutory deadline the Fund as a whole has achieved 97.5% compliance with the Scheme regulations. Overall, this is not seen as being materially significant whilst accepting that those Scheme members affected are not receiving a suitable level of service. Actions are being taken by the Fund to resolve the issue and a statement will be produced manually for any Scheme member who requests one. All affected Scheme members to be written to (preferably by WBC as the employer) explaining why this issue has arisen and the actions to be taken to ensure that not only the 2017 ABSs can be produced but that the 2018 ABSs will be produced within the statutory deadline of 31 August 2018. See attached action plan for further information.			
NAME OF REPORTER AND DATE REPORTED TO TPR	Not reported to TPR as issue identified and an action plan implemented to resolve the issue. However, when agreeing the action plan it has been clearly outlined by the Pension Fund that if the circumstances leading to the breach are not resolved within the agreed deadline the Pension Fund will report itself to the Pensions Regulator with any fines issued being recharged back to the Scheme employer that is responsible failing to meet the statutory requirement.			
TPR RESPONSE	Not applicable			
ACTION TAKEN	Following extensive work to data-match pension and payroll records Annual Benefits Statements for 2017 were personally issued to School Business Managers on 26 June 2018. Further data-matching work resulted in the 2018 Annual Benefit Statements being issued on-line on the 14 August 2018 well within the statutory deadline. Ongoing work is being undertaken to keep records up to date until such time in the 2019/20 year when the whole process of data transfer will be automated.			

Action	Responsibility	Date for completion
Letter to be sent to affected scheme members via school business managers– draft email and letter attached	Wokingham BC	31 January 2018
Email to be sent to all school contacts requesting completion of a staff details spreadsheet for return to the Pension Fund	Pension Fund	31 January 2018
Staff details returned to Pension Fund by each school for data matching	Wokingham Schools	16 February 2018
Pension Fund to review and return discrepancies to the school	Pension Fund	All completed by 28 February 2018
All discrepancies to have been reviewed by schools and updates returned to the Fund	Wokingham Schools	All returned by 9 March 2018
All outstanding discrepancies to be sent to Selima for action	Pension Fund/WBC	16 March 2018
Selima to provide responses to the queries raised	Selima/WBC	30 March 2018
Final outstanding queries to be resolved	All	20 April 2018
2017 annual benefit statements to be published to mypensionONLINE	Pension Fund	30 April 2018
2017/18 annual return to be submitted to the Pension Fund	Selima/WBC	30 April 2018
Data to be posted to the pension administration system	Pension Fund	25 May 2018
Discrepancies to be raised with Selima	Pension Fund	28 May 2018
Selima to respond to discrepancies	Selima/WBC	22 June 2018
Outstanding queries to be returned to Selima	Pension Fund	13 July 2018
Selima to respond to all remaining queries	Selima/WBC	31 July 2018
Pension Fund to produce 2018 annual benefit statements	Pension Fund	31 August 2018
Formal discussions to commence regarding on-boarding of i-connect	All	31 December 2018

MANAGING RISKS

CONTENTS

1 INTRODUCTION

A Scheme Manager (Administering Authority) of a public service pension scheme must establish and operate internal controls which must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law. The Royal Borough of Windsor & Maidenhead, as the Administering Authority to the Royal County of Berkshire Pension Fund, has a risk management policy and strategy and the Fund's operational and strategic risks are integrated into, and have a direct correlation with, the Royal Borough's risk management framework. Great emphasis is placed on risk management and the reason why the Pension Fund differentiates between operational and strategic risks is to secure the effective governance and administration of the Local Government Pension Scheme.

Risk can be identified as "*the chance of something happening which may have an impact on the achievement of an organisation's objectives*". The difference between a risk and an issue is one of timing:

- A risk event has not happened yet;
- An issue is a result of an event that is happening right now or has already happened;
- As the risk event is a future event, the task is to assess its probability of occurring and estimate the impact that would be caused if it did occur;
- An issue event has already happened so there is no need to assess its probability but what must be taken into account is the impact and what reaction is required to deal with it;
- There is a possibility for a risk to turn into an issue when it is realised.

The main internal controls for the Pension Fund are:

- Arrangements and procedures to be followed in administration, governance and management of the scheme;
- Systems and arrangements for monitoring that administration, governance and management; and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

2 RISK MANAGEMENT POLICY

Risk management decisions and practices will be in accordance with appropriate codes of best practice, ethical standards and values applicable to the governance and administration of the LGPS and as applied to the officers of the Pension Fund.

To deliver this policy it is necessary for Pension Fund staff, Elected Members of the Pension Fund Panel, members of the Pension Fund Advisory Panel and members of the Pension Board to adopt a consistent and systematic approach to managing risks. The way in which risk is managed can have a major impact on the Pension Fund's key objectives and service delivery to its stakeholders.

The foundations of this policy are based upon a common understanding and application of the following principles:

- The informed acceptance of risk is an essential element of good business strategy;
- Risk management is an effective means to enhance and protect the Pension Fund over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed business decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the Administering Authority's risk management strategy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

3 PENSION FUND OBJECTIVES

Operational objectives

- To manage the scheme in accordance with scheme regulations and associated pension law;
- To ensure that the appropriate knowledge and experience is maintained within the Pension Fund so that all duties are discharged properly;
- To maintain a high quality pension member database;
- To ensure that all pension payments are made on the correct pay date;

- To ensure that payments do not continue to be made to deceased members of the scheme;
- To have continuous access to the pension administration software during normal working hours and extended hours as required;
- To ensure that pension contributions are received from Scheme employers by the Pension Fund within required timescales;
- To maintain an appropriate level of staff to administer the scheme effectively and efficiently;
- To maintain a pension administration strategy and service level agreement and ensure that key performance indicators are achieved and reported to the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board;
- To communicate effectively and efficiently with all scheme members;
- To ensure that third party operations are controlled and operate effectively and cost efficiently;

- To monitor and review the performance of the Local Pensions Partnership Investment Limited as the Investment Fund Manager to ensure maximum benefit for the Pension Fund.

Strategic objectives

- To achieve a funding level of 100%;
- To achieve stable employer contribution rates;
- To set the strategic asset allocation;
- To monitor and review investment performance in line with the strategic asset allocation;
-
- To ensure employer covenants are sufficient to meet employer obligations;
- To maintain a high level of governance of the Pension Fund in line with the Local Government Pension Scheme Regulations and associated pension legislation.

4 PENSION FUND RISKS

If risk is not properly managed it can have a significant impact on the Pension Fund. The effective management of risk is a critical part of the Pension Fund's approach to delivering sound governance and administration performance that provides better outcomes for all of its stakeholders. The Pension Fund identifies the operational and strategic risks associated with its operational and strategic objectives.

The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Pension Fund should understand the nature of risk and systemically identify, analyse, treat, monitor and review those risks.

Risk management requires:

- A consistent management framework for making decisions on how best to manage risk;
- Relevant legislative requirements to be taken into account in managing risks;
- Integration of risk management with existing planning and operational processes;
- Leadership to empower staff in the management of risk;
- Good quality information.

Operational risks

Key operational risk covers such areas as:

- Administration of member records;
- Payments of member benefits;
- Management of the Pension Fund’s cash;
- Monitoring and reviewing investment performance;
- Receipt of employee and employer contributions;
- Business continuity and disaster recovery;
- Lack of knowledge and expertise; and
- Staff shortages.

Strategic risks

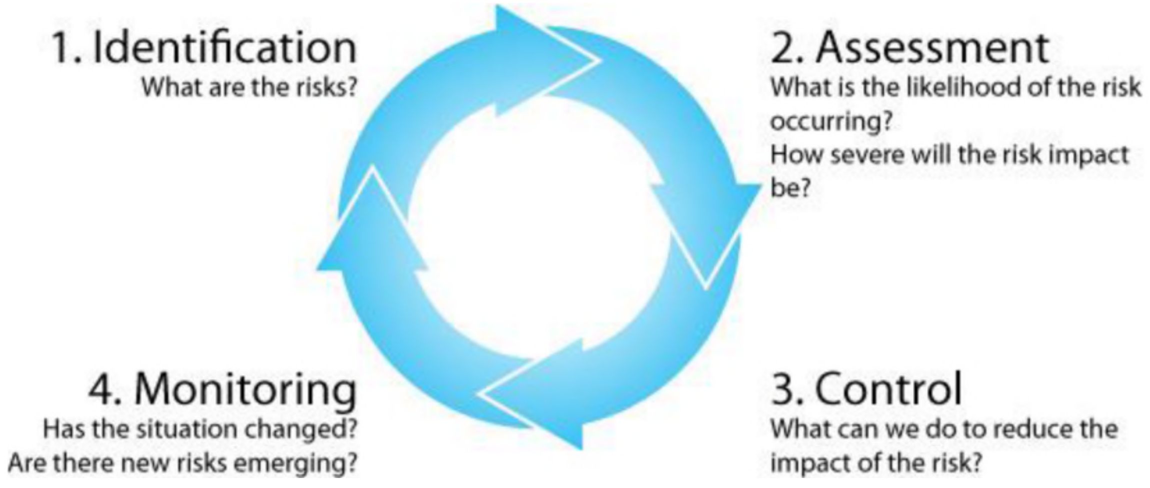
Key strategic risk, whilst not affecting day to day operations of the Fund, could in the medium or long-term, have significant impact and covers such areas as:

- The Pension Fund being less than 100% funded;
- Volatility of employer contribution rates;
- Investment performance;
- Failure to meet funding targets
- Longevity risk;
- Employer covenants.

The Pension Fund’s risk assessment and register sets out all of the operational and strategic risks.

5 RISK MANAGEMENT PROCESS

The Pension Fund has adopted the Administering Authority’s approach to risk management which follows a four-stage process that involves the Fund’s objectives being risk profiled.



Stage 1 – Identification

This involves identifying the Pension Fund's objectives from its core business processes.

Stage 2 - Assessment

This stage identifies those circumstances (risks) that might prevent those objectives being reached and evaluates the likelihood, impact and significance of each risk.

Impacts are scored from 1 to 4 where 1 represents a minor risk and 4 represents a high risk. The likelihood of the risk occurring is also scored from 1 to 4 where 1 represents very unlikely and 4 very likely.

Multiplying these likelihood and impact scores together gives a result that is assessed as "high risk" (a value over 10), "high/medium risk" (a value above 8 and below 11), "medium risk" (a value above 4 and below 9) and "low risk" (a value below 5). Key risks are those identified as high risk and those where the implications of failure carry the most damaging consequences.

In terms of assessing each risk the assessment is detailed in three situations for all risks with a further dimension of risk appetite assessment to the key risks:

- Uncontrolled: the inherent risk without any controls whatsoever;
- Current: how the risk stands at the present time;
- Controlled: how the risk would look once all treatment measures are implemented.

An impact/likelihood matrix as follows shows how each risk once assessed against both criteria will identify the risk profile of each objective.

I M P	**High**	**4**	**8**	**12**	**16**
	Medium/High	**3**	**6**	**9**	**12**

A C T	Medium	2	4	6	8
	Low	1	2	3	4
		Low	Medium	Medium/High	High
	LIKELIHOOD VALUES				

Stage 3 - Control

This stage treats the risks in order of priority. Treatment measures address whether the likelihood and/or impact can be reduced or the consequences changed. Contingencies can be devised to respond should the risk occur.

Stage 4 - Monitoring

This stage sets out a process for reviewing and monitoring actions previously taken. Each risk must clearly indicate all consequences, countermeasures and contingencies along with the risk owner.

This process adds scrutiny to ensure:

- Correct risks are being identified;
- Treatment measures identified are legitimate;
- Correct individuals are assigned as risk owners;
- There are challenges made to what is known to ensure that the most up to date knowledge is being utilised;
- There are early warning systems so that information can filter up quickly and easily.

6 RISK APPETITE

Risk appetite is the phrase used to describe where the Pension Fund considers itself to be on the spectrum ranging from willingness to take or accept risks through to an unwillingness or aversion to taking risks.

The Administering Authority provides a diverse range of services where its risk appetite may vary from one service to another. The Pension Fund has a set of core objectives and so its risk appetite can be set within appropriate limits.

A defined risk appetite reduces the likelihood of unpleasant surprises and considers:

- Risk capacity: the actual physical resources available and physical capability of the Pension Fund. The Fund’s capacity will have limits and therefore its capacity is finite and breaching those limits may cause the Pension Fund problems that it cannot deal with;
- Risk tolerance: the factors that the Pension Fund can determine, can change and is prepare to bear. Risks falling within the Fund’s tolerances for governance and administration services can be accepted.

7 RISK MANAGEMENT ROLES AND RESPONSIBILITIES

This section has been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

Managing director

The MD takes overall responsibility for the council's risk management performance and in particular ensures that:

- decision-making is in line with council policy and procedures for management of risk;
- adequate resources are made available for the management of risk;
- there is an understanding of the risks facing the council.

Cabinet members

- Take reasonable steps to consider the risks involved in the decisions taken by them;
- Have an understanding of the key council risks falling within their portfolio.

Audit and Performance Review Panel

- Consider and approve the risk management strategy annually and communicate it to other elected members;
- Receive an annual report on risk management and monitor the effective development and operation and corporate governance in the council;
- Receive quarterly reports on the management of the key operational and strategic risks facing the council to allow their scrutiny and challenge;
- Oversee the governance process to ensure that strategic risks are being reviewed at CMT and across each directorate;
- Oversee a comprehensive, inclusive and risk management approach to the annual governance statement process;
- Review an annual report on corporate governance (annual governance statement).

Head of finance

- Ensure that a risk management policy and strategy is developed and reviewed annually to reflect the changing nature of the council;
- Champion the process of risk management as good management practice and a valuable management tool.

Senior Leadership Team (SLT)

- Ensure that the council manages risk effectively through the development of an all-encompassing strategy and monthly updates from the risk manager;

- Approve the corporate risk management strategy;

- Challenge the contents of the corporate risk register to ensure, in particular, that it reflects any significant new risks emerging and that monitoring systems are suitably robust;

- Support and promote risk management throughout the council;

- Ensure that, where appropriate, key decision reports include a section demonstrating that arrangements are in place to manage identified risks.

- Identify and manage the strategic and SLT risk registers on a quarterly basis.

Directorate Management Team (DMT)

- Ensure that risk is managed effectively in each service area within the agreed corporate strategy;

- Identify any service specific issues relating to risk management which have not been explicitly addressed in the corporate strategy;

- Identify and manage the directorate risk register on a quarterly basis;

- Disseminate the detail of the strategy and allocate responsibilities for implementation to service managers and staff;

- Establish the training requirements of managers and staff with regard to strategy implementation;

- Have an understanding of the risks facing the council.

Insurance and risk management team

- Develop the strategy and oversee its implementation across the council;

- Share experience and good practice on risk and risk management;

- Develop and recommend the strategy to the Audit and Performance Review Panel and CMT;

- Provide a clear and concise system for reporting risks to elected members.

Internal audit

- Take the content of the key risk registers into account when setting the internal audit programme;

- Undertake audits to assess the effectiveness of the risk mitigation measures;

- Feed back audit opinions into the risk register.

Heads of service/managers

- Take primary responsibility for identifying and managing significant strategic and operational risks arising from their service activities;
- Recommend the necessary training for employees on risk management;
- Maintain a risk management portfolio for their service area;
- Ensure that all employees are aware of the risk assessments appropriate to their activity;
- Be responsible for production, testing and maintenance of business continuity plans.

All staff

- Identify new or changing risks in their job and feed these back to their line manager;
- Support continuous service delivery and any emergency response.

8 CORPORATE RISK FINANCING STRATEGY

This section has also been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

The council uses its risk financing arrangements to protect itself from the financial implications of unexpected accidental events affecting its staff and property, which helps in providing continuous services in the event of serious losses.

The level of cover bought and excesses applied will depend on the council's appetite for risk, based on its financial security i.e. ability to self fund claims and the strength of its risk management.

The council is exempt from the majority of requirements regarding compulsory insurance. The only insurable aspect of the council's operations it is obliged to make specific financial provision for is fidelity guarantee (fraud by staff).

Nevertheless, most public sector organisations including the council, choose to purchase external insurance for the majority of their risks. This is because without external insurance, the council will be obliged to fund all such exposures from its resources.

If the council were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in premiums.

Having strong risk management arrangements across the council allows us to retain some risks either by deciding to self insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value.

Objectives

- Provide financial protection to the council's assets, resources, services and employees;
- Maintain an appropriate balance between external insurance and internal risk retention;

- Reduce the cost of external insurance premium spend;
- Ensure the internal insurance fund is maintained at an appropriate level;
- Ensure resilient claims handling arrangements and insurance fraud detection;
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

Achieved by:

- Using claims modelling and other risk assessments to determine risk exposures;
- Continually monitoring changes in legislation, civil justice protocols and relevant case law;
- Comparing the council's insurance programme and claims experience through suitable benchmarking;
- Maintaining claims handling protocols in line with statutory requirements;
- Undertaking periodic actuarial fund reviews.

Procurement of insurance

All insurance procurement complies with the relevant EU procurement rules.

Hard copies of policies are retained indefinitely with more recent policy documentation stored electronically.

Approved by the Pension Panel: 12 November 2018

Next review date: October 2019

Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 001	Failure to comply with Scheme regulations and associated pension law.	Operational	Lack of technical expertise / staff resources to research regulations, IT systems not kept up to date with regulations.	Incorrect pension payments made or estimates given. Unhappy customers, employers, risks of fines, adverse audit reports, breaches of the law.	Rob Stubbs	Sufficient staffing. Training and regulatory updates for all individuals associated with the Fund. Competent software provider and external consultants.	2	2	4	**Low**	Work continues to ensure that the Fund complies fully with all governance and administration requirements.	Kevin Taylor Philip Boyton	Ongoing	2	2	4	**Low**	Nov. 2018
PEN 002	Late issue of Scheme regulation amendments.	Operational	DCLG do not issue changes to regulations well in advance of effective date.	Resource issues for Fund. Administering Authority has a duty to ensure that all stakeholders receive and have access to most up to date information.	Rob Stubbs	Required actions to be considered in view of draft regulations. Senior managers to consider appropriate requirements and prioritise communications accordingly.	4	1	4	**Low**	Details to be included on welcome page of website and information to be distributed to Scheme employers for dissemination to scheme members via intranet and email.	Kevin Taylor Philip Boyton	N/A	4	1	4	**Low**	Nov. 2018
PEN 003	The appropriate knowledge and understanding is not maintained by the Administering Authority.	Operational	Lack of technical expertise, training, professional development and continuous self-assessment to identify gaps in knowledge.	Failure to secure compliance with statutory obligations and tPR requirements leading to poor governance and administration of the Scheme. Dissatisfied customers, adverse audit reports, risk of fine.	Rob Stubbs	Training plans in place for officers and Members of the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board. Members of Pension Board to assist Administering Authority in ensuring compliance.	4	1	4	**Low**	Continual review of training needs and staff levels with succession plans developed.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	**Low**	Nov. 2018
PEN 004	Failure to maintain a high quality member database.	Operational	Poor or non-existent notification of member data by Scheme employers.	Incorrect records, incorrect benefit estimates, potentially incorrect pension benefits being paid. Scheme members access wrong information via self-service. Loss of reputation, more complaints, poor performance.	Rob Stubbs	Fund continues to work with employers to improve data quality. Pro-active checks when benefits are calculated. Membership information is checked as part of year-end processing	4	2	8	**Medium**	Key aim of the Pension Administration Strategy is to engage employers in the use of i-Connect	Kevin Taylor Philip Boyton	March 2017 to March 2019	4	1	4	**Low**	Nov. 2018

Date last reviewed: 11 September 2017
Date last updated: 13 September 2017

Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 005	Failure to hold personal data securely.	Operational	Poor procedures for data transfer to and from partner organisations, poor security of systems, poor data retention and disposal, poor backup and recovery of data.	Poor data, lost or compromised. Risk of fines, adverse audit reports, breaches of the law.	Rob Stubbs	Database hosted off-site and backed up in 2 separate locations. Access to systems is available to a limited number of users via dual password and user identification. Data transferred is encrypted. Compliant with RBWM data protection and IT policies. No paper files all managed via image and system document generation. Confidential waste disposed of in line with RBWM policy.	4	1	4	Low	Annual audit undertaken. Staff undertake annual data protection training in line with RBWM policy.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	Nov. 2018
PEN 006	Failure to make pension payments on time.	Operational	Systems not in place to ensure payments made on time.	Payments paid late and in some cases after statutory deadline. Fund open to criticism and possible fine.	Rob Stubbs	Schedule of payment dates is maintained and written procedures adopted. Sufficient cover is provided to ensure payments can be made on time.	4	1	4	Low	Continual review of training needs and staff levels with succession plans developed.	Philip Boyton	Ongoing	4	1	4	Low	Nov. 2018
PEN 007	Continue making payments to deceased members.	Operational	Systems not in place to ensure that payments stop at appropriate time. Fund not advised of member's death.	Payments continue to be made incorrectly at a potential cost to the Pension Fund. Distress caused to dependants.	Rob Stubbs	The Fund undertakes a monthly mortality screening exercise and participates in the biennial National Fraud Initiative (NFI).	2	2	4	Low	Fund has signed up to the Information Sharing Agreement hosted by WYPF and the DWP 'Tell Us Once' service.	Philip Boyton	Ongoing	2	2	4	Low	Nov. 2018
PEN 008	Unable to access pension software during normal office hours or extended hours where required.	Operational	Links to system not working, internet access denied.	Unable to carry out administrative duties for duration of outage.	Rob Stubbs	Procedures in place to contact software provider's helpdesk and action plan implemented. Outage times recorded / reported.	4	1	4	Low	As part of contract consideration needs to be given to means of compensation for loss of service.	Philip Boyton	Ongoing	4	1	4	Low	Nov. 2018

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Date last updated: 13 September 2017

Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 009	Late or non-receipt of pension contributions from Scheme employer.	Operational	Scheme employers fail to make payment of employee and employer contributions to Pension Fund within statutory deadlines.	Loss of pension investment. Employer at risk of being reported to tPR with action and fines being imposed if considered to be of material significance.	Rob Stubbs	Receipt of contributions is monitored very closely. Employers chased and reminded of their statutory duties. All occurrences recorded in stewardship report. Guidance issued to scheme employers.	2	1	3	**Low**	Scheme employers engaging with i-Connect will automatically upload contributions to member records monthly improving reconciliation processes.	Kevin Taylor	Ongoing	2	2	4	**Low**	Nov. 2018
PEN 010	Increased liabilities as a result of large number of early retirement cases.	Operational	Scheme employer early retirement policies.	Potential for unfunded liabilities through strain costs. Financial loss to the Fund.	Rob Stubbs	The Fund monitors the incidences of early retirements closely and procedures are in place to ensure that Scheme employers are invoiced for any strain costs that arise.	1	1	2	**Low**	Settlement of invoices required within 21 days of issue with failures resulting in the issue of a notice of unsatisfactory performance to employer.	Kevin Taylor	Ongoing	2	2	4	**Low**	Nov. 2018
PEN 011	Loss of key staff.	Operational	The specialist nature of the work means some staff have become experts in the LGPS regulations and investment policies.	If someone leaves or becomes ill a big knowledge gap is left behind.	Rob Stubbs	In the event of a knowledge gap external consultants and independent advisors can help in the short-term.	2	2	4	**Low**	N/A	Rob Stubbs	Ongoing	2	2	4	**Low**	Nov. 2018
PEN 012	Failure to communicate properly with stakeholders	Operational	Lack of clear communications policy and action particularly with Scheme members and employers.	Scheme members unaware of the rights and privileges the Scheme provides so make bad decisions. Employers are not aware of the regulations and their responsibilities and so data flow is poor.	Rob Stubbs	The Fund has a Communication Manager and a Communications Policy. The website is maintained to high standard and all guides, factsheets and training notes are published.	4	1	4	**Low**	The Communication Policy continues to evolve.	Kevin Taylor	Ongoing	4	1	4	**Low**	Nov. 2018
PEN 013	Loss of office premises	Operational	Fire, bomb, flood etc.	Temporary loss of service.	Rob Stubbs	A business continuity plan is in place. Systems hosted, staff can work at home.	4	1	4	**Low**	N/A	Kevin Taylor	Ongoing	4	1	4	**Low**	Nov. 2018

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Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 014	Loss of funds through fraud.	Operational	Fraud or misappropriation of funds by an employer, agent or contractor.	Financial loss to the Fund.	Rob Stubbs	The Fund is internally and externally audited to test that controls are adequate. Regulatory control reports from investment managers, custodian. Due diligence is carried out when new investment managers appointed. Fund participates in biennial National Fraud Initiative (NFI).	4	1	4	Low	Monthly spot checks are undertaken as requested by internal audit to ensure that no 'ghost' members have been added to payroll and that all payment runs have been processed appropriately.	Rob Stubbs	Ongoing	4	1	4	Low	Nov. 2018
PEN 015	Poor management of cashflows.	Operational	Day to day cashflows not monitored effectively.	Funds not available to make pension payments.	Rob Stubbs	Officers of the Pension Fund monitor cashflows on a daily basis and are aware of the payment schedules produced by payroll.	4	1	4	Low	N/A	Kevin Taylor	Ongoing	4	1	4	Low	Nov. 2018
PEN 016	Failure to delegate duties appropriately.	Operational	Delegation of duties not understood.	Officers fail to fulfil their delegated duties resulting in poor performance and potential loss of reputation.	Rob Stubbs	Officers carry out their duties in accordance with the Administering Authority's Schedule of Delegations as contained in the Council's Constitution.	3	2	6	Low	Schedules of delegation to be reviewed for all aspects of the Pension Fund's duties.	Rob Stubbs	March 2016	4	1	4	Low	Nov. 2018
PEN 017	Funding Level below 100%.	Strategic	Lack of proper strategy to achieve 100% funding level. Actual investment returns fail to meet expected returns.	Fund remains underfunded and employer contribution rates increase.	Rob Stubbs	Fund has published Funding Strategy Statement. Deficit recovery plan implemented following 2010 valuation. Fund regularly monitors investment returns and the Actuary provides a funding update each month.	4	2	8	Medium	Regular performance updates received from LPP I Ltd.	Rob Stubbs	Ongoing	4	1	4	Low	Nov. 2018

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Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 018	Unstable employer contribution rates.	Strategic	Actual investment returns fail to meet expected returns.	Volatile employer contribution rates leading to Scheme employers having difficulties in setting budgets.	Rob Stubbs	The Fund aims to keep employer contribution rates stable by agreeing with employers and the Actuary and appropriate deficit recovery plan.	4	1	4	Low	Funding l;evel monitored closely.	Rob Stubbs	Ongoing	4	1	4	Low	Nov. 2018
PEN 019	Inappropriate funding targets.	Strategic	Failure of investment strategy to deliver adequate returns.	Immediate cash injections required from employers. Increase in employer contributions.	Rob Stubbs	The Fund has issued a Funding Strategy statement and Investment Strategy Statement. .	3	1	3	Low	Regular performance updates received from LPP I Ltd.	Rob Stubbs	Ongoing	4	1	4	Low	Nov. 2018
PEN 020	Unsatisfactory investment performance	Strategic	Poor economic conditions, wrong investment strategy, poor selection of investment managers.	Poor / negative investment return, employer contribution rates increase, funding level falls, pressure on Council tax and employer costs.	Rob Stubbs	Use of expert consultants in the selection of investment strategy and managers. Regular review via Investment Working Group.	2	2	4	Low	Regular performance updates to be received from LPP I Ltd	Rob Stubbs	Ongoing	4	1	4	Low	Nov. 2018
PEN 021	Life Expectancy risk.	Strategic	As life expectancy rises liabilities increase disproportionately.	Employer contributions rise causing upward pressure on Council Tax and employer costs.	Rob Stubbs	In December 2009 the Fund entered into a longevity insurance SWAP covering its liabilities for pensioners as at 31 July 2009.	3	1	3	Low	The Pension Fund Panel continues to investigate how to protect the Fund against increasing longevity. Reviews the cost of insuring longevity risk of pensioners retired since July 2009.	Rob Stubbs	Ongoing	3	1	3	Low	Nov. 2018
PEN 022	Currency risk.	Strategic	Values of investments overseas are affected by unrelated changes in foreign exchange rates.	Investment returns become volatile in the medium to long-term.	Rob Stubbs	In April 2012 the Fund's currency hedging policy was amended so currency exposures are managed against a strategic currency benchmark.	3	1	3	Low	Regular performance updates to be received from LPP I Ltd	Rob Stubbs	Ongoing	3	1	3	Low	Nov. 2018
							Current risk rating							Target risk rating				
Ref	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk owner**	**Controls in place to manage the risk**	**Impa**	**Like**	**Sco**	**Level of risk**	**Further actions necessary to manage the risk**	**Risk action owner**	**Date Complete**	**Impa**	**Like**	**Sco**	**Level of risk**	**Next Review Date**

Date last reviewed: 11 September 2017
Date last updated: 13 September 2017

Royal County of Berkshire Pension Fund – Risk Assessment Register

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PEN 023	Interest rate risk.	Strategic	Changes in long-term interest rates affect the net present value of the Fund's liabilities.	Investment returns become volatile in the medium to long-term.	Rob Stubbs	The Pension Fund Panel has considered how long-term interest rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	3	1	3	**Low**	Regular performance updates to be received from LPP I Ltd	Rob Stubbs	March 2016	3	1	3	**Low**	Nov. 2018
PEN 024	Inflation risk.	Strategic	Benefits paid to Scheme members are linked (upwards only) to Consumer Price Index (CPI).	Liabilities increase disproportionately at times of high inflation.	Rob Stubbs	The Pension Fund Panel has considered how long-term inflation risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	2	1	2	**Low**	Regular performance updates to be received from LPP I Ltd	Rob Stubbs	Ongoing	4	1	4	**Low**	Nov. 2018
PEN 025	Inability of Scheme employers to meet their obligations.	Strategic	When a Scheme employer no longer has any active members a cessation valuation is triggered and an exit payment required if a funding deficit exists to meet future liabilities.	Failure to collect cessation payments means the cost of funding future liabilities will fall to the Fund and therefore all Scheme employers that remain in it meaning a potential increase in employer contributions.	Rob Stubbs	The Pension Fund Panel has authorised officers to take appropriate steps to review employer covenants and take the necessary action to mitigate the impact that the failure of one Scheme employer can have on all other Scheme employers.	3	2	6	**Medium**	LPP I Ltd assessing risks.	Rob Stubbs	March 2016	3	1	3	**Low**	Nov. 2018
							Current risk rating							**Target risk rating**				
Ref	**Risk**	**Risk Category**	**Cause**	**Impact**	**Risk owner**	**Controls in place to manage the risk**	**Impact**	**Likelihood**	**Score**	**Level of risk**	**Further actions necessary to manage the risk**	**Risk action owner**	**Date Complete**	**Impact**	**Likelihood**	**Score**	**Level of risk**	**Next Review Date**
PEN 027	Ability to implement the	Operational	Introduction of exit cap will place an additional burden	Changes need to be communicated to individuals and	Rob Stubbs	Currently monitoring the progress and	1	4	4	**Low**	Awaiting issue of regulations in order	Kevin Taylor	July 2016	1	4	4	**Low**	Nov. 2018

Date last reviewed: 11 September 2017
Date last updated: 13 September 2017

	Public Sector exit cap.		of the administration team.	Scheme employers. Systems will need to be adapted once revised regulations have been issued.		briefings being communicated.					to formulate action plan.	Philip Boyton						
PEN 028	Reconciliation of GMP records	Operational	From 6 April 2016 changes to the State Pension Scheme remove the contracting-out nature of the LGPS.	GMPs no longer provided by HMRC. GMP information held by Fund could be wrong resulting in potential for liabilities being paid by Fund.	Rob Stubbs	Data analysis carried out and action taken to reconcile and adjust pensions paid to retired members.	1	4	4	Low	To review GMP amountsalloctaed to active and deferred members..	Philip Boyton	Nov. 2018	1	3	3	Low	Nov. 2018
PEN 029	Failure by Pension Board members to fulfil their Terms of Reference and associated protocols	Operational	Members of the Pension Board so not fulfil their statutory obligations set out in their Terms of Reference.	Failure by Pension Board members to assist the Administering Authority in securing compliance with pension legislation and requirements set out by the Pensions Regulator leading to poor governance and administration of the scheme. Dissatisfied customers, loss of reputation, risk of fine.	Rob Stubbs	Training plans in place for Pension Board members.	4	1	4	Low	Annual review of Terms of Reference and regular review of training needs.	Kevin Taylor	Ongoing	4	1	4	Low	Nov. 2018

Date last reviewed: 11 September 2017
Date last updated: 13 September 2017

Report Title:	**Pass-through Admission Agreements**
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 12 November 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report explains the financial risks involved in admitting private sector companies into the Pension Fund when they successfully bid for Local Government service contracts.
2. Members are asked to consider this paper with particular regard to the option for so-called pass-through arrangements where the perceived financial risk is considered to be acceptable.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Approves the principle of pass-through where the risk to the Pension Fund is negated;
ii) Agrees to delegate responsibility to officers to consult with scheme employers and publish guidelines on the website.

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 In accordance with Part 3 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") an administering authority may make admission agreements with a wide-ranging number of employers defined as 'admission bodies'. For the purpose of this paper paragraph 1(d)(i) is of particular relevance; *"(1) The following bodies are admission bodies with whom an administering authority may make an admission agreement (d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of (i) the transfer of the service or assets by means of a contract or other arrangement".* Such an arrangement would be typically described as a 'service outsourcing'.

2.2 Paragraph (13) of the same Regulation further states that *"Where an admission body of the description in paragraph (1)(d) undertakes to meet the requirement of these Regulations, the appropriate administering authority **must** admit to the Scheme the eligible employees of that body".*

2.3 When a Scheme employer (the transferor scheme employer) chooses to outsource a service and a procurement exercise is undertaken, details of the potential pension costs should be included at the earliest possible stage of the procurement process. This will normally involve the Fund actuary preparing a report at a cost of £1,580 plus VAT in which an employer contribution rate and bond/indemnity level is set and which would be required of the eventual admission body. Ideally, this report should be included in the transferor scheme employer's procurement documents. At Appendix 1 to this paper is a guide to Navigating Entry to the LGPS for Local Government Contractors as prepared by the Pensions and Lifetime Savings Association (PLSA) which provides an overview of this process.

2.4 As part of the procurement exercise the transferor scheme employer and their chosen independent service provider need to consider and discuss the financial risks associated with becoming an admission body under the LGPS Regulations. Both parties, in conjunction with the Pension Fund, need to consider the level at which the pension risks should be retained by the transferor scheme employer or transferred to the admission body. At Appendix 2 to this paper is a briefing note, prepared by Barnett Waddingham, concerning the transfer of risk and highlights the option of pass-through.

2.5 The outsourcing of a service contract will in most instances involve the transfer of employment under the TUPE regulations in force at the time for those staff involved. On many occasions, however, the numbers of staff being transferred is minimal (less than 10 and on occasion as few as 1 or 2) but the process of admitting an independent service provider to the LGPS as an admission body is currently undertaken in the same way as if a larger group of employees is transferred.

2.6 Where a limited number of employees are to be transferred, pass-through becomes an attractive option to all parties involved in the process for a number of reasons:

- The procurement process is more straightforward;
- Actuarial fees are reduced or avoided completely;
- The pension costs will be explicit from the outset therefore removing the need for the contract bidder to load their contract prices to account for the potential and unforeseen pension costs associated with becoming an admission body;
- Officer time and cost is reduced;
- There is no need for the procurement of a bond;
- Admission agreements can be executed in a timely and effective manner.

2.7 In practice, pass-through works by agreeing a fixed employer contribution rate for the entire length of the service contract. The chosen independent service provider upon becoming an admission body to the Fund will be responsible for deducting the employer contributions from the pensionable pay of their 'transferred' scheme members and making payment to the Pension Fund. The employer contribution rate will be set out in the admission agreement signed between the admission body, the transferor scheme employer and the Administering Authority. The admission body will become responsible for no other pension costs. Any funding deficit, or surplus, that may arise during the term of the service contract will revert back to the transferor scheme employer when that contract ends and the admission agreement is terminated.

2.8 The service contract between the transferor scheme employer and their chosen independent service provider (admission body) will need to reflect all other requirements relating to the funding of pension scheme benefits. The transferor scheme employer will need to consider the extent to which it is prepared to meet the pension risk even though pass-through may be agreed. For example:

2.8.1. Cap and collar - agree with its chosen service provider that where the actuary assesses that the funding level requires an increase or decrease to the employer contribution rate during the term of the contract, that the change in employer contribution rate is made within an agreed tolerance either way but that any increase or decrease to the employer rate in excess of that tolerance is adjusted for by an amendment to the contract price;

2.8.2. Pension strain costs - agree with its chosen service provider whether the service provider will be responsible for any pension strain costs arising as a result of their decision to allow the early release of unreduced pension benefits e.g. upon redundancy, business efficiency;

2.8.3. Pay increases – agree with its chosen service provider, who should meet any additional funding costs arising as a result of the admission body awarding pay increases in excess of equivalent pay increases awarded by the transferor scheme employer.

2.9 Paragraph 8(b) of Part 3 to Schedule 2 of the Regulations states that *"Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from, in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph."* Therefore, ultimately the risk associated with pass-through is one undertaken by the transferor scheme employer and whilst pass-through may be seen as an efficient option where the risks are minimal, it may not be the preferred option for transferor scheme employers where a significant number of scheme members may be transferred to an admission body. In these cases if may be more appropriate to pursue a bond, a parent company guarantee or an equivalent indemnity to the satisfaction of the transferor scheme employer and the Pension Fund.

3 KEY IMPLICATIONS

3.1 The Administering Authority (Scheme Manager) is required by law to maintain the Royal County of Berkshire Pension Fund is accordance with the Regulations and all other associated legislation. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where he deems it to have failed in areas of scheme governance, risk management and administration.

3.2 The Administering Authority has a responsibility to manage the administration of the Scheme on behalf of all Scheme employers ensuring that all aspects of administration are effective and efficient, maintaining stable employer contribution rates and reducing costs where achievable.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The Pension Fund will not enter into any admission agreement without the appropriate indemnity being agreed between the parties to the agreement. Improved processes will add value for money.

5 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority in admitting employers to the Fund.

6 RISK MANAGEMENT

6.1 The Administering Authority will need to ensure that appropriate measures are taken to protect the Pension Fund against any potential costs arising as a result of a Scheme employer’s decision to outsource a service.

6.2 This will be achieved by ensuring that the terms of any admission agreement to which all parties are agreed clearly sets out the responsibilities for funding the pension benefits of the scheme members to which the admission agreement relates and that the Pension Fund will apply all statutory requirements set out in the Regulations.

6.3 The Pension Fund will only agree to a full pass-through arrangement where it is satisfied that any funding risks are covered by the other parties to the agreement.

7 POTENTIAL IMPACTS

7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in a loss of confidence in the Administering Authority.

8 CONSULTATION

Scheme employers will be consulted with prior to any guidelines being issued by the Pension Fund.

9 TIMETABLE FOR IMPLEMENTATION

9.1 Implementation timetable

As soon as possible subject to completion of consultation.

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 – PLSA guide - Navigating Entry to the LGPS for Local Government Contractors
- Appendix 2 – Barnett Waddingham briefing – Pass-through Arrangements

11 BACKGROUND DOCUMENTS

11.1 Local Government Pension Scheme Regulations 2013 (as amended)

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr John Lenton	Chairman – Berkshire Pension Fund Panel		
Rob Stubbs	Section 151 Officer		

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

A GUIDE FOR EMPLOYERS PARTICIPATING IN THE LGPS

NAVIGATING ENTRY INTO THE LGPS: FOR LOCAL GOVERNMENT CONTRACTORS

CONTENTS

1. INTRODUCTION

OVER 13,000 EMPLOYERS HELP TO DELIVER LOCAL PUBLIC SERVICES. THESE EMPLOYERS ARE TYPICALLY BUSINESSES, CHARITIES, AND HOUSING ASSOCIATIONS.

If a local authority contract involves the transfer of staff to your organisation under a TUPE arrangement, you will come to participate in the Local Government Pension Scheme (LGPS) as an ‘admission body’, or will be required to provide a ‘comparable’ pension benefit.

The LGPS provides a good quality pension for its members. However, participation in the scheme comes with potentially significant financial commitments and administrative responsibilities, including:

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

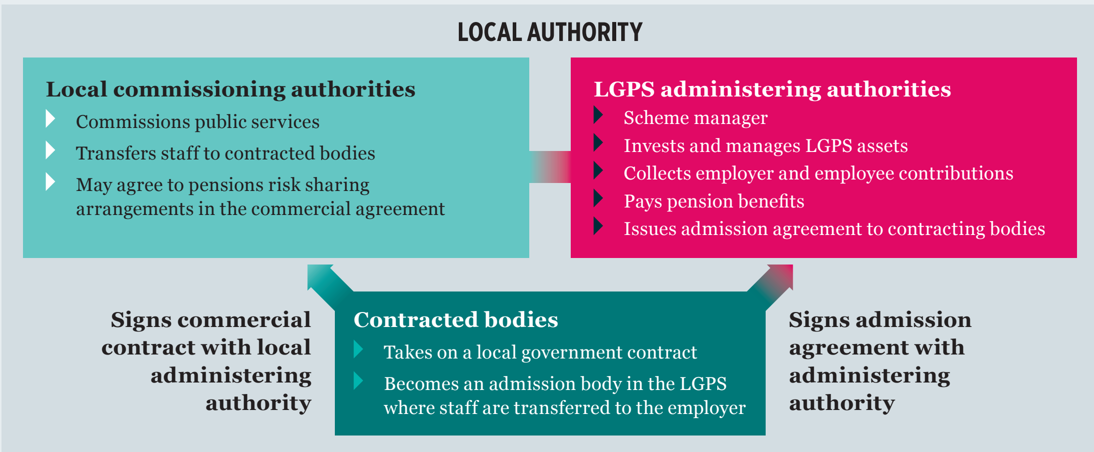
This guidance will help you to obtain a full appreciation of these obligations and any associated risks before entering into a local government contract.

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[1]. As an admission body, you need to be aware of the relationships between the local commissioning authority and the local administering authorities.



You will engage with the commissioning authority on the terms of the contract you are tendering for (‘the commercial contract’); and the administering authority regarding the terms of entry into the LGPS. These terms are governed by an ‘admission agreement’, a legally binding contract between you, the commissioning authority, and the administering authority.

1 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 when they are paid. 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 deficit attributed to admission bodies is calculated at the end of the contract and levied as exit costs.

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[2].

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

2. WHAT DO YOU NEED TO KNOW BEFORE ENTERING THE SCHEME?

BEFORE MAKING A DECISION ABOUT TAKING ON A LOCAL GOVERNMENT CONTRACT THAT RESULTS IN ENTERING THE LGPS, YOU NEED TO UNDERSTAND:

- The process of joining the scheme (see Section 3);
- Risks associated with participating in the scheme (see Section 4);
- How these risks might affect your financial prospects and how to mitigate them (see Section 5);
- Your obligations as an employer participating in the scheme and how they could change in the future; and
- Opportunities for negotiating terms of entry, participation and exit.

GOOD GOVERNANCE

You should formalise governance processes to understand and ultimately make decisions about proceeding with becoming an admission body.

Getting this right is critical as you need to be able to assess whether the contract is still viable after taking into account financial commitments to the LGPS. The following steps capture the basic principles of setting up a good governance process.

STEP 1

Check whether or not the commercial contract involves a TUPE arrangement.

STEP 2

Investigate the terms of the standard admission agreement with the administering authority and which of them are negotiable or can be amended alongside the commercial agreement with the contracting authority.

STEP 3

Analyse how the terms of the admission agreement as they stand and possible amendments to them are a risk to the cost-benefit of the commercial contract.

STEP 4

Assess whether, in light of your organisation's risk framework and financial position, the commercial contract and admission agreement is appropriate to take on in its current or an amended form.

WHO IS RESPONSIBLE?

A number of people in your organisation need to be alert to the pension obligations associated with taking on a local government contract.

In the first instance, those responsible for submitting your contract tender need to be aware that local government contracts could include LGPS admission agreements.

Next, the person responsible for identifying the terms of the admission agreement ideally should be someone who has a sufficient 'pensions vocabulary'. In larger organisations you may have the capacity to train up senior members of your contracting team to find out and interpret essential information from the administering authority. In smaller organisations this may be your finance personnel, chief executive or even an accountant, actuary or legal adviser.

The person responsible for assessing the desirability of the contract will vary. Ultimately, where it involves taking on significant risk, this decision may need to be escalated to your senior executive team or board. They may wish to seek expert advice to make a fully informed decision.

MAKING A DECISION ABOUT PARTICIPATION IN THE SCHEME

A cost-benefit analysis of the contract that factors in LGPS costs, should only form a part of the decision-making process. Other important factors such as your financial position, aims, and what contingency mechanisms you have in place to deal with outstanding liabilities should also be considered.

3. WHAT YOU NEED TO KNOW, AND WHEN, DURING THE TENDERING PROCESS

THE TERMS OF THE ADMISSION AGREEMENT NEED TO BE CONSIDERED AS PART OF THE OVERALL PROCESS OF THE TENDER ALONGSIDE THE TERMS OF THE COMMERCIAL AGREEMENT.

There will be little room to manoeuvre beyond the standard admission agreement issued by the administering authority; however, you will have the opportunity to negotiate risk-sharing arrangements in the terms of your commercial contract with the commissioning authority.

Below we provide an explanation of what you should be thinking about at each stage of the tendering process. It is important to build in time for a series of exchanges between the three main parties. In particular, those you engage with from the commissioning authority may have varying levels of knowledge about the pension implications of the contract they are assigning and so may have to seek external advice.

PRE-TENDER

- Will you be taking on employees who are currently participating in the LGPS?
  - How many?
  - What are their ages, salaries and accrued benefits?
  - On what terms will their liabilities be transferred?
- Do you wish to allow new employees, who work on the contract but are not required to participate, to participate in the LGPS? (This is called an ‘open’ contract.)
- Who will you engage with on pension issues at the administering and contracting authorities?

INVITATION TO TENDER

During the tender process you should request the following information:

- Guidance for admission bodies (where available);
- An example admission agreement with an indicative contribution rate;
- The latest actuarial valuation of the fund;
- The commissioning authority’s policies on pensions risk-sharing;
- Whether a bond or indemnity is required; and
- Your exposure to additional costs that could arise due to redundancy, ill health and death in service of the transferred employees.

SUBMISSION TO TENDER

When submitting your bid for the contract, the price should include a prudent, risk-adjusted measure of the costs of providing the service that includes the cost of LGPS participation[3].

CONTRACT AGREED WITH THE COMMISSIONING AUTHORITY

Any risk-sharing with the commissioning authority should be agreed at this phase (see Sections 4-5).

ADMISSION AGREEMENT AGREED WITH THE ADMINISTERING AUTHORITY

The admission agreement and all of the paperwork relating to being set up as a new employer in the fund should be completed at this time. Although this and the previous stage are ordered sequentially, in practice they need to be considered alongside each other from the start of the contract.

3 NAO guidelines state that contracts should cover core costs and, for charities, that donations shouldn't be used to cover the costs of delivering a statutory service.

4. RISKS FOR ADMISSION BODIES PARTICIPATING IN THE LGPS

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

- Increases in contributions during the term of the contract;
- Exit costs – what the fund requires at the end of the contract; and
- Unexpected increases to staff remuneration, which have a knock-on consequence for contributions during the term of the contract.

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 over the term of your contract. 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 such a valuation can be brought forward outside of this cycle – most admission agreements will indicate this.

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.

To make your liability for the past service liabilities of transferred employees clear to you, admission agreements will state that, on the date of your contract commencing, your participation in the scheme starts as '100% funded'. This term can be misleading, so it is important to understand what it does and doesn't mean.

When employees are transferred to you, the fund will assess whether there is a deficit relating to the funding of the scheme for those employees. If the scheme is in deficit, being 100% funded means that you are not responsible for the deficit that has arisen before you took on those employees. However, you do take on the liabilities relating to those employees, which can change over time. You will be responsible therefore for any changes to the deficit that arise from the commencement of the contract in relation to those past service liabilities.

For example if the employees' notional scheme is £5 million in deficit when you start the contract, then you won't be liable to pay extra contributions to ensure those past service liabilities are fully matched. If however, on the next valuation, that £5 million deficit has grown to £6 million, then, unless you have negotiated another arrangement, you will be liable for the extra funding gap that has arisen in relation to those employees' past service liabilities over the course of your contract – an extra £1 million.

Changes in these liabilities will, in turn, be reflected in your contribution rate and any exit costs payable at the end of the contract.

COVENANT ASSESSMENT

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 have the capacity to feed into discussions about the covenant strength allocated to you[4]. It is important that you understand the rationale behind your allocated covenant strength, what this means for your participation in the scheme, and what factors will improve or worsen your position. Higher contributions will be required from an employer with a 'weak' covenant, because the administering authority has concerns about weaker employers' ability to pay if the deficit increases.

EXIT COSTS[5]

Exit costs 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, known as a 'cessation event', when:

- the commercial contract has ended;
- Your last 'active' member (ie. members that are still accruing benefits) leaves the scheme; or
- You undergo an insolvency event so no longer employ any active members in the scheme.

There are also some situations where a corporate restructure (eg. a merger or an acquisition) results in an effective cessation event, because a new entity employs the members.

Where there is no successor body agreeing to take on the liabilities, or no guarantor in place, cessation or 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. This basis is employed to minimise the risk that deficits attributable to members of departing employers inadvertently fall onto other employers as 'orphan liabilities'.

BONDS AND OTHER SECURITY

To mitigate the risk that employers won't be able to honour their commitments to the scheme, many administering authorities will ask for some form of indemnity against an inability to pay, such as a bond, security or a parent guarantee.

Different administering authorities apply different policies regarding what the bond is designed to cover. Some simply cover the costs of any likely redundancy payments on early termination. Others may go far wider and cover exit costs.

Bonds can be expensive to provide and may have a negative impact on your sponsor's balance sheet. Companies are not always willing to provide bonds readily; particularly if they already have a number of other bonds in place.

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

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.

When these events occur, you may need to pick up the increased value of the benefit earned over the member's total service. Some administering authorities make their own insurance provisions for these purposes so that the employer rate includes a small amount intended to cover these costs.

Most commissioning authorities will require you to pay for any increase in costs due to redundancies or greater-than-expected numbers of early retirees separately – and so where you are planning redundancies, it is important to factor in this cost.

5. MITIGATION OF RISKS

THERE ARE MANY WAYS TO LIMIT YOUR EXPOSURE TO RISKS FROM PARTICIPATING IN THE LGPS. THE MOST IMPORTANT THING TO REMEMBER IS THAT ONCE YOU ARE AN EMPLOYER IN THE LGPS, THE REGULATIONS, THE COMMERCIAL CONTRACT AND THE ADMISSION AGREEMENT WILL CONTROL YOUR RELATIONSHIP WITH THE LGPS.

To the extent that you can mitigate risks, it will be through the commercial contract. Different commissioning authorit ies have different policies on which risks they are willing to cover for admission bodies.

Some common risk mitigation measures are described below:

- Unless you have an agreement with the administering or contracting authority to the contrary, you are responsible for all past service liability which includes pensionable service accrued prior to you taking on the contract. You may want to ensure that you are isolated from this funding risk. You should discuss with the commissioning authority options to remove responsibility for any past service liability accrued before the start of the contract.
- You should seek to have liabilities dealt with on a consistent (actuarial) basis on joining and exiting the scheme in order to avoid unexpected exit costs.
- If you have agreed to assume the risk for pre-contract past service liability then care should also be taken over the actuarial basis used to calculate this. Even if there is no funding volatility over the course of the contract, pre-contract liability could be calculated on a higher basis at exit.
- Some funds will allow the costs arising from ill health retirements and deaths in service to be smoothed through your ongoing contributions or, especially for small contractors, shared among a pooled group of similar employers. The default position is for these additional costs to be levied by a single payment.
- Costs arising as a result of redundancy are generally considered an employer decision rather than a risk to be shared. However, there may be some room to discuss how costs arising very early in a contract are handled.
- It may be possible to request that the contracting authority pays any excess should contributions exceed a stated ceiling. This is known as a ‘pass-through’ arrangement.
- A more sophisticated arrangement is a ‘cap and collar’ arrangement where the contracting employer agrees to pay contributions only if they are within a certain range. If they fall outside this range, adjustments are made to the contribution rate.
- You can agree to restraints on your own behaviour or options so as to reduce risk of increasing liabilities. A commissioning authority may agree to retain certain risks if the contractor takes responsibility for matters affecting pension liabilities under its control, such as excessive pay awards.

NOTES

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May 2016

This guide is for information only and is not advice about investment and must not be relied upon to make any financial decisions.

Briefing

Pass-through arrangements

This note outlines some of the considerations that should be taken if a new employer becomes an admission body within an LGPS Fund under a pass-through arrangement.

We summarise the key risks associated with participation in a pension scheme as well as describing different risk sharing arrangements focusing on pass-through arrangements. We also detail what a pass-through arrangement is and what a Fund should consider if this option is offered to a new employer.

Please note that this should not be seen as legal advice and this note simply summarises the issues that we believe should be considered as a minimum before taking part in a pass-through arrangement. This list is not exhaustive and there may be further Fund specific considerations that should be made.

Risks transferred

There are various pensions risks that apply to any outsourcing contract and they can be divided up between the Letting Authority and the new employer depending on the terms of the agreement. In the table to the right we consider the main pensions risks that exist and where the responsibility for these risks lie under a full risk transfer arrangement and a pass-through arrangement. Please note that the share of risk ultimately depends on the specific pass-through arrangement and so the responsibility of risks set out in the table below is only a representation of a potential pass-through arrangement. Each risk should be carefully considered so that it is clear where the responsibility lies for each risk and either set out in the admission agreement or in a side agreement. This list is not exhaustive and any Fund specific risks should be taken into consideration.

Risk	Full risk transfer	Pass-through
Investment risk	New employer	Letting Authority
Inflation risk	New employer	Letting Authority
Salary risk	New employer	Mainly the Letting Authority
Mortality risk	New employer	Letting Authority
Any change in actuarial assumptions	New employer	Letting Authority
Number of members leaving	New employer	Letting Authority
Early retirements	New employer	Usually the new employer
Ill health retirements	New employer	Varies but usually the Letting Authority
Discretions	New employer	Usually the new employer
Regulatory change	Depends on the details of the change but usually the new employer	Letting Authority

Full risk transfer

Under a full risk transfer with no pass-through arrangement, all the pensions risk is borne by the new employer and who would also be responsible for any deficit which may arise over the duration of the contract. The pensions risk would include: investment risk, salary risk and mortality risk.

Normally in these cases, the liabilities would be transferred to the new employer on a fully funded basis. In other words, any existing deficit attaching to the transferring liabilities remains the responsibility of the Letting Authority at the point of transfer, in which case the new employer is only responsible for any deficit arising after the initial transfer.

Pass-through arrangements

A pass-through arrangement is one in which the risks inherent in participating in the LGPS are shared between the new employer and Letting Authority, and typically with the majority of the pensions risk being borne by the Letting Authority rather than the new employer.

> Importantly, it also means that the new employer would not be required to fund any deficit at the end of the contract, subject to any agreed exceptions.

For example, in most cases, the new employer would still be expected to pay for the cost of any enhancements to members' benefits, including those payable via early retirement redundancies as well as meeting the contributions payable. If the new employer does not want to take responsibility for such risks it needs to be clearly stated in the admission agreement and all parties should be clear about their responsibilities from the outset.

For accounting purposes, the nature of the pass-through arrangement and the specific risk sharing arrangement needs to be considered. For example, under a full risk transfer the pensions risk would pass to the new employer and the liability would be included on the balance sheet of the new employer.

> Under a full pass-through arrangement where all the pensions risks remains with the Letting Authority, the liability would be included on the balance sheet of the Letting Authority.

Approaches to pass-through arrangements

There are three common approaches to setting the contributions payable under a pass-through arrangement which are outlined below:

1. Simple fixed rate

A simple fixed rate approach is one in which the pass-through contribution rate is fixed at outset and not re-calculated during the remainder of the contract. This can be set out in the admission agreement or may be set out as part of the commercial contract between the Letting Authority and the contractor.

It may be that the contractor pays contributions into a Fund throughout the life of the contract based on the pass-through contribution rate agreed at outset. Another approach may be that the rate the contractor pays into a Fund at varies (for example, following each triennial valuation) but the difference between the rate and the original pass-through contribution rate is reimbursed to the contractor/Letting Authority in some way, for example via adjustments to the contract pricing. Under this approach, as any differences are reimbursed, the overall effect remains that the contractor pays the pass-through contribution rate.

At the end of the contract, there would be no exit deficit for the contractor as the Letting Authority has retained all of the funding risk.

For accounting purposes, the contractor's obligation is simply to pay a fixed contribution rate so we would not expect them to have to include any liability on their balance sheet in respect of their LGPS pension participation and instead the Letting Authority would include it in their disclosures. The contractor may report its participation in the LGPS as if it were a defined contribution scheme.

2. Varies in line with the cost of benefit accrual

This approach is most likely to be found on longer contracts. An initial rate is set and then adjusted at each valuation in line with the change in the cost of benefit accrual. This means that the contractor picks up the cost of changes in the profile of their membership, the life expectancy of their members and the actuary's updated assumptions, such as future investment returns, inflation and salary increases. The Letting Authority retains much of the market risk (e.g. asset performance) and experience (e.g. if inflation has been higher or lower between the valuation periods than assumed).

> This arrangement also involves no exit deficit at the end of the contract for the contractor, and the Letting Authority has retained all of the past service deficit risk.

This approach means that if there are any updates to the future expected cost of benefits, the contractor's rate is updated. For accounting purposes, under this approach it is less clear whether the contractor needs to include a liability on their balance sheet – they are subject to some pensions risk but they never have a possibility of a past service funding deficit so it could be argued that they have no accounting balance sheet obligation. In these cases, the contractor (and Letting Authority) should check with their auditors what their requirements are.

3. Matches the Letting Authority

This is a simple approach which just means that the contractor pays the same contribution rate the Letting Authority pays. When the Letting Authority's rate is updated, the contractor's rate is also updated. This is similar to conventional pooling in an LGPS Fund where employers are grouped and pay the same contribution rate. .

> This arrangement also involves no exit deficit at the end of the contract for the contractor, however, it has taken on some of the past service deficit risk throughout the life of the contract.

Therefore, it's just another step along from the above two approaches. In these cases, the contractor shares in all pensions risks while they are on the contract but, assuming the Letting Authority is much larger than the contractor, the rate that they pay should be less volatile than it would have been if the risk had been fully transferred to the contractor.

It does introduce another risk though, which is that specific factors driving the Letting Authority's rate may inadvertently affect the contractor's rate. For example, the Letting Authority may decide to prioritise paying their pensions deficit so at the triennial valuation, they may volunteer to pay a higher rate and this would have a knock-on effect on the contractor. If the contractor leaves a Fund relatively shortly after this, they have simply paid higher contributions because of a decision by the Letting Authority. By a similar argument though, the Letting Authority's rate might be lowered for the opposite reason and therefore, the contractor would pay lower contributions because of the Letting Authority's decision.

As the contractor is now sharing in some of the pensions risk, it may be that there is a stronger argument that they should include a liability on their balance sheet. However, it may be that the absence of an exit deficit means that this is not required. Again, auditors' advice should be sought in these cases.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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Report Title:	**GAD Section 13 Report**
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 12 November 2018
Responsible Officer(s):	Rob Stubbs, s151 Officer, Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report provides Members with an overview of The Government Actuary's Section 13 report issued in accordance with Section 13 of the Public Service Pensions Act 2013.
2. The full report, an Executive Summary and the Section 13 Report Appendices are attached to this report.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes this report and:

i) Considers the Section 13 reports attached to this paper.

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Government Actuary has been appointed by the Ministry of Housing, Communities and Local Government (MCHLG) to report under section 13 of the Public Service Pensions Act 2013.

2.2 Section 13 requires the Government Actuary to report on whether the following scheme aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

2.3 The Section 13 report issued on 27 September 2018 is the first formal report of its kind and is based on the results of the 2016 triennial valuation of the LGPS Funds in England and Wales. A 'dry run' was produced and published in 2016 based on the results of the 2013 triennial valuation of the LGPS Funds in England and Wales.

2.4 Members will recall that the results of the 'dry run' flagged up the Berkshire Pension Fund in two particular areas:

- Funding Level; and
- Deficit Recovery Period.

2.5 A meeting between Members, the Government Actuary and the Fund's own Actuary to discuss these areas of concern was held on 24 May 2018 in the offices of the Pension Fund. The Government Actuary appeared positive in that the Fund had taken the appropriate actions to increase employer contribution rates and that the funding level had improved since 2016. In paragraph 1.6 of the Executive Summary attached at Appendix 1 to this paper, comment is made that Berkshire has "taken steps to increase their employer contributions which has helped reduce our concerns regarding long term cost efficiency".

2.6 Despite this, Berkshire is still mentioned throughout the full report, which can be found at Appendix 2 to this report, and the Appendices to the full report. Chart B1 on page 11 of the Appendices, which can be found at Appendix 3 to this paper, shows Berkshire's funding level to be bottom but one on the SAB Standard Basis and bottom but seven on the 2016 Local Bases.

2.7 The table on page 42 of the Appendices also shows Berkshire to have the longest deficit recovery period whilst the majority of Funds listed appear to be in surplus.

2.8 The four firms that provide actuarial services to the LGPS Funds in England and Wales have written to the Chair of the Local Government Pension Scheme Advisory Board expressing their material concerns as to the detail contained within the report and giving their reasons as to why, in their opinion, it is not in the interests of the LGPS for some of the Government Actuary's recommendations to be taken forward. This letter can be found at Appendix 4 to this report.

3 KEY IMPLICATIONS

3.1 The Scheme Manager (Administering Authority) is required by law to maintain the Royal County of Berkshire Pension Fund is accordance with the LGPS Regulations and all other associated legislation.

3.2 The Scheme Manager (Administering Authority) has a duty to set the investment strategy for the Fund whilst monitoring investment performance and the strategic allocation of assets.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 N/A

5 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority in maintaining a Pension Fund.

6 RISK MANAGEMENT

6.1 Failure to maintain the Pension Fund in line with statutory legislation could result in the Scheme Manager (Administering Authority) being reported to the Pensions Regulator.

7 POTENTIAL IMPACTS

7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in fines being imposed by the Pensions Regulator and a loss of confidence in the Scheme Manager (Administering Authority).

8 CONSULTATION

Not applicable.

9 TIMETABLE FOR IMPLEMENTATION

9.1 N/A

10 APPENDICES

Appendix 1 – Executive Summary of the Government Actuary's section 13 report
Appendix 2 – Full section 13 report
Appendix 3 – Appendices to full report
Appendix 4 – Actuarial firms' letter to Chair of SAB

11 BACKGROUND DOCUMENTS

11.1 Public Service Pensions Act 2013
11.2 Local Government Pension Scheme Regulations 2013 (as amended)

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr John Lenton	Chairman – Berkshire Pension Fund Panel		
Rob Stubbs	Section 151 Officer		

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013

Executive Summary

Date: 27 September 2018

Author: Martin Clarke, John Bayliss


35%

Executive summary

1.1 The Government Actuary has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme').

1.2 Section 13 requires the Government Actuary (GAD) to report on whether the following aims are achieved:

- compliance
- consistency
- solvency
- long term cost efficiency

1.3 This is the first formal section 13 report. This report is published as three documents: the executive summary, the report and appendices. A 'Dry Run' was produced in respect of the 2013 valuations and published in 2016.[1]

1.4 This report is based on the actuarial valuations of the 91 funds, other data provided by the funds and their actuaries, and a significant engagement exercise with affected funds. We are grateful to these stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever-changing circumstances and feedback received.

Overall comments

1.5 In aggregate, the LGPS is in a strong financial position and funds have made significant progress since the 2013 valuation based on the criteria that:

- total assets have grown in market value from £180bn to £217bn. The aggregate funding level on prudent local bases has improved from 79% to 85% at 2016
- the improved funding level (assets divided by liabilities) is due in part to the significant financial contributions from LGPS employers (total contributions in the three years covered by the 2013 valuation report were £6.9bn per year, on average of which approximately £2bn per year were deficit recovery payments), as well as better than expected returns on assets
- on our best estimate basis, the LGPS was in surplus in aggregate at 2016 (funding level approximately 106%), and around 60 of the 91 individual funds were in surplus. This means that we expect there is, on average, a greater than 50% chance that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due

1.6 Significant progress has been made by a number of funds that were highlighted in the dry run, which we welcome:

- South Yorkshire Passenger Transport Fund's assets and liabilities have been transferred to Greater Manchester Pension Fund, to remove the specific risk arising from the fund being backed by a single private sector employer

[1] http://www.lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

- Berkshire and Somerset Pension Funds have taken steps to increase their employer contributions which has helped reduce our concerns regarding long term cost efficiency
- a consistent definition of Primary and Secondary Contribution Rates has been agreed between the four firms of actuarial advisors that undertake local valuations, which has gone a long way towards improving consistency of valuation reporting

1.7 We also consider it our role to highlight specific areas where risks may be present. We have looked at a range of metrics to identify potential issues in respect of solvency and long term cost efficiency. Each fund's score under each measure is colour coded (red, amber or green). In total, 70 out of 89 funds tested had green flags on all solvency and long term cost efficiency metrics. This is a significant improvement compared with the previous dry run report (52 out of 90). There are a total of 20 amber and 2 red flags, which is again a significant improvement compared with the dry run (58 amber, 5 red).

1.8 Based on the criteria above, the Scheme is in a strong financial position, and has made significant progress since the dry run. To further improve transparency and comparability, we consider it would be helpful for administering authorities and other stakeholders if they were able to make meaningful comparisons between the 91 actuarial valuations. Consequently this report makes three recommendations on consistency which affect all the funds. It also makes one specific recommendation on solvency (affecting one fund) and one recommendation on long term cost efficiency (affecting all funds).

1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

1.10 Our review indicated that fund valuations were compliant with relevant regulations on the basis described in Chapter 2 of this report.

Consistency

1.11 We interpreted 'not inconsistent' to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports.

1.12 Readers of the actuarial valuations face two difficulties in making meaningful comparisons between the reports:

- presentational: information is presented in different ways in different reports (eg funding levels), and sometimes information is contained in some reports but not others (eg life expectancies), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency
- evidential: even when the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like-for-like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (eg financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted). However, in some areas, it appears that the choice of assumptions is more dependent on the house view of the particular firm of actuaries advising the fund, than on the local circumstances of the fund

1.13 There has been an improvement in consistency of presentation of contribution rates emerging from the 2016 valuations.

1.14 However, despite this welcome improvement, inconsistencies remain, both presentational and evidential. Our recommendations are designed to:

- encourage the presentation of results in a consistent way which is easy to understand and compare across the whole LGPS
- move towards an assumption set that differs from one fund to another only where local conditions justify it, rather than being dependent on the house view of a particular actuarial advisor

Recommendation 1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the MHCLG minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.

Recommendation 2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

1.15 In relation to academies, we support the work of the SAB in seeking to simplify and streamline administration processes, noting that these improvements are not just relevant to academies, but to all employer groups. We expect this to lead to more consistent data quality, which in turn assists consistency objectives.

Recommendation 3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

Solvency

1.16 As set out in CIPFA's Funding Strategy Statement Guidance,[2] the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency of the pension fund if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) 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:

- employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

[2] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

1.17 For open funds, solvency is dependent on employers being able to pay contributions as required, knowing that these contributions may increase or decrease significantly in future. Considering the LGPS as a whole, our long term expectation is that contributions will fall below their current levels as remaining deficits are paid off. However there is a significant chance that contributions remain at their current levels or even increase further in the long term, and in the short term there is always the risk that contributions need to increase or decrease following actuarial valuations.

1.18 At a fund level, we have expressed our stress tests in terms of the relative effects of an adverse stress to asset values on core spending power for English local authorities, and financing data for Welsh local authorities. We find that if asset values were to fall by 15%, then there is a range of impacts on different funds and, on the basis of our assumptions,[3] funds could face increases in contribution over 3% of their core spending. Funds should be aware of this risk, and consider if any action should be taken to manage it. For the avoidance of doubt, we do not consider that this risk implies that the aims of section 13 are not achieved.

1.19 West Midlands Integrated Transport Authority Pension Fund (WMITA) retains the specific risk arising from the majority of the fund liabilities being backed by a single private sector employer and being closed to new entrants. The administering authority and the employers have made substantial efforts by paying significant contributions to mitigate this risk. However, without a plan in place to ensure that the WMITA fund continues to meet benefits due in an environment of no future employer contributions being available, we do not think that any (realistic) employer contribution rate would be sufficient to achieve the solvency aim of section 13. We recommend that the administering authority put such a plan in place.

Recommendation 4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.

Long term cost efficiency

1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

1.21 A number of funds highlighted in the Dry Run have made progress, with their employers increasing contributions following the 2016 valuation.

1.22 CIPFA's Funding Strategy Statement Guidance states "Administering authorities should avoid continually extending deficit recovery periods at each and subsequent actuarial valuations. Over time and given stable market conditions, administering authorities should aim to reduce deficit recovery periods." In the dry run, we established the deficit reconciliation measure so that funds could confirm that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

[3] Core spending power is a measure of financial resource of the underlying (tax raising) employers. Details are provided in Appendix C.

1.23 We consider that reconciliation of the deficit recovery plan is an important component of section 13 for all funds.

1.24 Through this exercise, we have identified and engaged with a number of funds that have extended their deficit recovery end points. We have not concluded that this implies the aims of section 13 are not achieved, however we do recommend that all funds review their funding strategy and consider whether this is in accordance with the CIPFA guidance referred to above.

Recommendation 5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

1.25 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point being extended further into the future (increasing the burden on future taxpayers).

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013

Date: 27 September 2018

Author: Martin Clarke, John Bayliss

Contents

1 Introduction

1.1 This report is addressed to the Ministry of Housing, Communities and Local Government (MHCLG) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Service Pensions Act 2013 ('the Act'). GAD has prepared this report to set out the results of our review of the 2016 funding valuations of the Local Government Pension Scheme (LGPS). This report will be of relevance to: administering authorities and other employers, actuaries performing valuations for the funds within the LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance and Accountancy (CIPFA), as well as other LGPS stakeholders.

1.2 In this introduction we provide:

- background information on the LGPS and fund valuations
- background information on this review and section 13 of the Act
- details of the structure of this report, including the executive summary and the appendices
- discussion of the metrics and flags that we have used in this report, noting the significant improvement in outcomes compared with the previous review
- commentary on the role of the actuary and other stakeholders, noting that nothing in this report should be taken as criticism of administering authorities, their actuary, or other stakeholders
- discussion of the data and assumptions underpinning this review
- a note of our engagement with stakeholders
- a statement of compliance and limitations

The Local Government Pension Scheme and fund valuations

1.3 The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

1.4 Each LGPS pension fund is required to appoint its own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

GAD's review and section 13

1.5 Section 13 applies for the first time to the valuations as at 31 March 2016.

1.6 Subsection (4) of section 13 requires the Government Actuary as the person appointed by MHCLG to report on whether the four main aims are achieved, namely:

- compliance: whether the fund's valuation is in accordance with the scheme regulations
- consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS
- solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund

1.7 Section 13 subsection (6) states that if any of the aims of subsection (4) are not achieved:

a) the report may recommend remedial steps

b) the scheme manager must:

i) take such remedial steps as the scheme manager considers appropriate

ii) publish details of those steps and the reasons for taking them

c) the responsible authority may

iii) require the scheme manager to report on progress in taking remedial steps

iv) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate

1.8 A dry run of this exercise was published[1] following the valuations as at 31 March 2013.

Structure of this report

1.9 An executive summary to this report is provided in a separate document.

1.10 In the remaining chapters in this report, we consider each of the four aims of section 13:

- Chapter 2: Compliance
- Chapter 3: Consistency
- Chapter 4: Solvency
- Chapter 5: Long term cost efficiency

1.11 Appendices are contained in a separate document, and cover:

- Appendix A: Compliance
- Appendix B: Consistency
- Appendix C: Solvency
- Appendix D: Long term cost efficiency
- Appendix E: Asset liability study
- Appendix F: Data provided
- Appendix G: Assumptions
- Appendix H: Section 13 of the Public Service Pensions Act 2013
- Appendix I: Extracts from other relevant regulations

Metrics and flags

1.12 In its notes to the establishment of key performance indicators[2] (KPIs), the Scheme Advisory Board states: "The SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of 'under-performing' funds, and concurrently seeking to raise the level of performance of 'average' funds to that of the 'highest performing' funds."

[1] http://www.lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

[2] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

1.13 We have looked at a range of metrics to identify potential issues in respect of solvency and long term cost efficiency. Each fund's score under each measure is colour coded or flagged, where:

- indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency
- indicates a potential issue should be recognised, but in isolation would not usually contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency
- indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency

1.14 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope. We have had regard to the particular circumstances of some potential exceptions, following engagement with the administering authority and the fund actuary.

Results

1.15 In total, 70 out of 89 funds tested had green flags on all solvency and long term cost efficiency metrics. This is a significant improvement compared with the previous dry run report (52 out of 90). There are a total of 20 amber and 2 red flags, which is again a significant improvement compared with the dry run (58 amber, 5 red).

Interpretation of flags

1.16 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required, for example, we might have concern where multiple measures are triggered amber for a given fund.

1.17 In broad terms, amber flags are advisory signals that may indicate action and a need for further investigation through engagement with the relevant administering authority and their actuary. It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. Where an amber flag remains following that engagement, we believe this relates to an area where an issue remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the issue.

1.18 A green flag (ie the absence of a red or amber flag) does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

Limitations

1.19 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework is designed to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

1.20 Because of the nature of this exercise, the only post-valuation events considered are those that may have already been taken into account in the valuation disclosures.

1.21 Further detail is provided in the solvency and long term cost efficiency chapters and appendices.

Exclusions

1.22 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs[3], guaranteeing the security of these benefits. South Yorkshire Passenger Transport Pension Fund's assets and liabilities have been transferred to the Greater Manchester Pension Fund, hence we have not considered the fund further. In general, these funds have been excluded from the analyses that follow.

The role of the actuary and other stakeholders

1.23 The following key has been used to identify the actuarial advisers for each fund:

- Aon
- Barnett Waddingham
- Hymans Robertson
- Mercer

1.24 Local valuation outputs depend on the local circumstances of each fund, the administering authorities' Funding Strategy Statements, and the actuary's work on the valuation.

1.25 We have reported where the review raised concerns in relation to the aims of section 13. In some cases these concerns are related to the particular circumstances of individual funds – for example mature funds that could have large liabilities relative to the financial resources of their employers have some inherent risks and may be more likely to be flagged under our 'asset shock' measure.

1.26 It is not our role to express an opinion as to whether any concerns raised are driven by the local circumstances of a fund, or the actions of authorities, their actuary, or other stakeholders. Nothing in this report should be taken as criticism of authorities, their actuary, or other stakeholders.

Data and assumptions

1.27 The metrics are based on publicly available data and data provided to GAD by or on behalf of administering authorities. Further details are in Appendix F.

1.28 To make meaningful comparison of valuation results, we have referred to results restated on two bases:

- the standard basis established by the SAB, as calculated by fund actuaries
- a market consistent basis derived by us

1.29 Further details of both these bases are set out in Appendix G.

1.30 The market consistent basis is GAD's best estimate as at 2016, based on our views of likely future returns on each asset class across the Scheme. Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rates should be. We have presented GAD's view above, but there are other reasonable best estimate bases which may give materially different results.

1.31 This use of these standard bases does not imply the bases are suitable to be used for funding purposes:

- the SAB standard basis is not market consistent

[3] http://www.lgpsboard.org/images/Valuations2016/EAPFClosed2016.pdf

- the market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further, this does not take into account any anticipated changes in investment strategy that may be planned or in train

1.32 The local valuations and our calculations underlying this report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario.

Engagement with stakeholders

1.33 In preparing this report, we are grateful for helpful discussions with and cooperation from:

- MHCLG
- fund administrators
- actuarial advisors
- LGPS Scheme Advisory Board
- HMT

1.34 We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

1.35 We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Compliance and limitations

1.36 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

1.37 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

1.38 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. In addition, the appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).


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2 Compliance

Key compliance findings

- All reports checked contained a statement of compliance.
- All reports checked contained confirmation of each of the requirements in Regulation 62.
- We concluded that the aims of section 13 were achieved under the heading of compliance.

2.1 Section 13 requires that GAD must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

2.2 We found no concerns over compliance.

2.3 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see chapter on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors, and has assessed whether these reports have been completed in accordance with Regulation 62.[4]

2.4 We found that the actuarial valuation reports for each of the above funds have been completed in accordance with Regulation 62, and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.

2.5 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.

2.6 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

[4] The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

3
Consistency

Key consistency findings

- There has been an improvement in relation to disclosure of contribution rates.
- We recommend the SAB consider how best to implement a standard way of presenting relevant disclosures.
- The following assumptions show a marked difference for funds advised by the different firms of actuarial advisors that are not apparently due to local differences:
  - discount rate
  - mortality improvements
  - salary increases
  - commutation
- We recommend the SAB consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations.
- We recommend the SAB seeks a common basis for future conversions to academy status.

3.1 Section 13 requires that GAD must report on whether the actuarial valuation has been carried out in a way which is not inconsistent with other valuations.

3.2 In this chapter we:

- provide some background on the legislation, and previous valuations
- discuss two types of consistency: presentational and evidential
- consider presentational consistency in more detail, looking in particular at the presentation of employer contribution rates and the analysis of the change in these rates since the previous valuation
- consider evidential consistency in more detail, looking first at liability values and then at various assumptions: discount rate, mortality improvements, salary increases and commutation assumptions
- conclude and make recommendations
- take a more detailed look the treatment of academies

Background: legislation and previous valuations

3.3 Section 13(4)(b) requires us to report on whether actuarial valuations have been carried out in a way which is not inconsistent with other valuations completed under the scheme regulations.

3.4 We consider how consistency relates to the ability to compare two actuarial valuation reports and draw appropriate conclusions. This relates to how key information is presented as well as whether the outcomes are able to be compared. We consider it is wholly appropriate for assumptions to be set relative to local conditions, but that this should be clearly explained and permit such comparisons to be made.

3.5 Note that Regulation 62 of the 2013 regulations does not include a requirement that the actuarial valuations are carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. However, section 13 of the 2013 Act requires us to comment whether they have been carried out in this way.

3.6 We found improvements in consistency of contribution rate disclosure since the dry run. This was a major concern at the time. We welcome this significant progress. However, we found some other aspects of consistency had not improved since the dry run. Some aspects of this are discussed below.

Presentational and evidential consistency

3.7 Readers of the actuarial valuations face two difficulties in making meaningful comparisons between the reports:

- Presentational: information may be presented in different ways in different reports (eg funding levels), and sometimes information is contained in some reports but not others (eg life expectancies), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.
- Evidential: even when the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (eg financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted). However, in some areas, it appears that the choice of assumptions is highly dependent on the house view of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

3.8 Under both aspects there is a great deal of consistency when comparing any two reports produced by the same firm of actuarial advisors, but comparisons between reports of different firms of actuaries are more difficult.

Presentational consistency

3.9 We have taken a report produced by each firm of actuarial advisors to assess whether the information disclosed is consistent across all four advisors. The chosen funds are:

- Merseyside Pension Fund: Mercer
- London Borough of Haringey Pension Fund: Hymans Robertson
- Hampshire County Council Pension Fund: Aon
- Royal County of Berkshire Pension Fund: Barnett Waddingham

3.10 All four funds provide most of the key information that we expected from an actuarial valuation report. Each report also contains a section that summarises the changes to the funding position since the 2013 reports, and these are presented in very similar ways making for easy comparison.

3.11 However, the whole fund secondary contribution rates were not presented consistently, which might cause user difficulties if they wished to make comparisons between funds. This is discussed in more detail below.

Contribution rates

3.12 Contribution rates include the following components:

- primary contribution rate
- secondary contribution rate
- member contribution rate

3.13 The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

3.14 Secondary contribution rates are more complex and the whole fund rates are not presented consistently in the valuation reports. All firms of actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates. However, the summary statistics provided for the funds as a whole varied significantly between firms of actuarial advisors.

3.15 Table 3.1 summarises the information with regard to secondary contribution rates that are given in the valuation reports for the different firms of actuarial advisors. The inconsistent presentation of the secondary contribution rates relates to the presentation of the whole of fund / aggregate secondary contribution rates rather than individual employer secondary contribution rates. To aid comparison of these rates it would be helpful to present them more consistently. Given funds are of different sizes, translating whole fund secondary rates into a percentage of pensionable pay would assist.

Table 3.1: Secondary contribution rates

Fund (Firm of actuarial advisors)	2017	2018	2019	Average for recovery period
Hampshire (Aon)	£75,680,400 less 2.9% of pensionable pay	£81,548,300 less 1.9% of pensionable pay	£87,248,800 less 0.9% of pensionable pay	7.5% of pensionable pay
Berkshire (Barnett Waddingham)	£21,017,000 or 5.3% of pensionable pay	£27,468,000 or 6.7% of pensionable pay	£34,075,000 or 8.2% of pensionable pay	7.7% of pensionable pay
Haringey (Hymans Robertson)	£9,252,000	£8,612,000	£9,554,000	-
Merseyside (Mercer)	£136,300,000 less 0.9% of pensionable pay	£52,500,000 less 0.4% of pensionable pay	£53,600,000 plus 0.1% of pensionable pay	-

3.16 Barnett Waddingham expressed the secondary contribution rate as a percentage of pay and also gave the equivalent monetary amount. Aon and Mercer expressed the secondary contribution rate as a combination of a monetary amount and a (negative) percentage of pay. Hymans Robertson gave a monetary amount only.

3.17 Aon and Barnett Waddingham gave a single headline figure that summarises the average secondary contribution rate over the entire deficit recovery period for that fund.

3.18 In our view, the 2016 reports represent an improvement in the consistency of disclosures compared to those in the 2013 reports. Nevertheless, presentational inconsistency makes it difficult to compare the funds from all four firms of actuarial advisors based on the information provided in the valuation reports, without performing further analysis.

Change in contribution rates since the previous valuation

3.19 We note that regulations have changed with common contributions being replaced by primary and secondary contribution rates for employers. This makes comparison with the previous valuation difficult. Ideally, in future, we would expect to see a comparison of recommended primary and secondary contribution rates with those from the previous valuation. Table 3.2 shows the comparisons provided in each of the four reports.

3.20 A comparison with aggregate employer rates is provided in some cases. Others provide a comparison of primary rates only. We believe such a comparison is useful to enable the reader to understand the total level of contributions being paid into the fund.

Table 3.2: Comparison with prior valuation contribution rates

Fund	Comparison provided
Hampshire (Aon)	Comparison of the aggregate employer total contribution rate
Berkshire (Barnett Waddingham)	Analysis of the change in primary contribution rates, but no comparison of total employer rates
Haringey (Hymans Robertson)	The 2013 common contribution rate[5] alongside a comment that the change in regulatory regime and guidance on contribution rates means that a direct comparison to the whole fund rate at 2016 is not appropriate
Merseyside (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

[5] The common contribution rate (CCR) has been replaced by primary and secondary contribution rates in legislation. In some cases the CCR bore no relationship to actual contributions paid by employers.

Evidential consistency

3.21 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have not found any significant inconsistencies in the results of the valuations (the recommended employer contribution rates), but there are significant inconsistencies in the assumptions adopted.

3.22 Inconsistencies in the methodology and assumptions are less critical than inconsistencies in the results would be. However these inconsistencies make it difficult for users to compare reports, and in our view do not serve any clear purpose. We therefore make a recommendation below that the SAB consider this issue.

3.23 In the paragraphs that follow we:

- look at the range of difference in the value assigned to the liabilities between the local basis and the standard SAB basis, which illustrates the impact of inconsistencies in the local bases
- consider some specific assumptions in detail (including the discount rate), to illustrate the apparent inconsistences

Value assigned to the liabilities

3.24 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs be taken when comparing results.

3.25 Table 3.4 shows a comparison of local basis liability values vs SAB basis liability values, and charts B1 and B2 in Appendix B shows a comparison of local funding levels vs SAB basis funding levels, which illustrate the variation in levels of prudence adopted in each valuation, and therefore the difficulty in drawing conclusions based on liability values.

3.26 The liability value on the local basis for Berkshire is lower than on the SAB standard basis, yet the reverse is true for the other three funds. Across the whole Scheme, the range is between 36% and -1%. This illustrates the difficulty for the reader in drawing comparisons between reports.

Table 3.3: Liability values

Fund	Local basis £m	SAB standard basis £m	Difference between local basis and SAB standard basis
Hampshire (Aon)	6,453	5,718	13%
Berkshire (Barnett Waddingham)	2,242	2,267	-1%
Haringey (Hymans Robertson)	1,323	1,118	18%
Merseyside (Mercer)	8,081	7,019	15%

Assumptions adopted

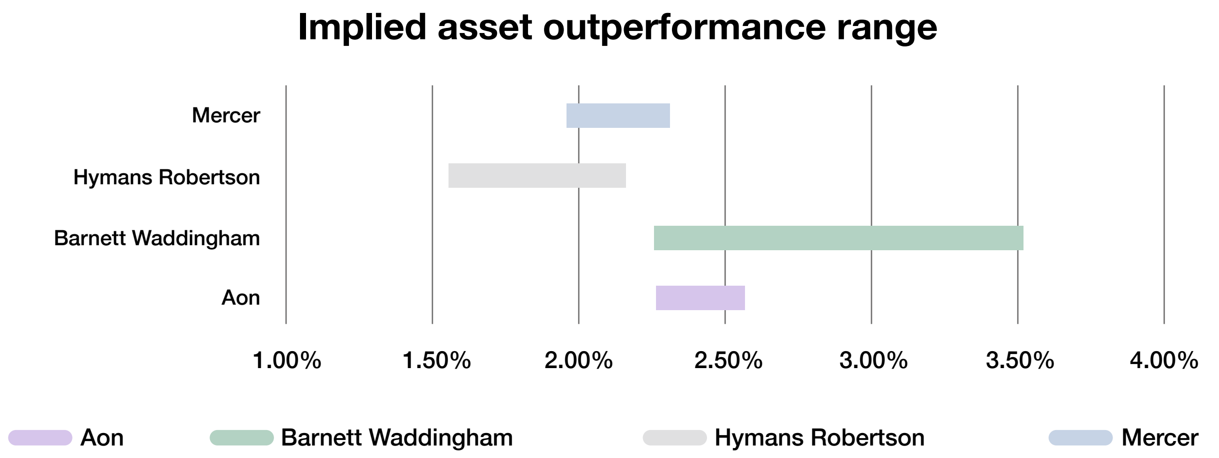
3.27 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions:

- discount rate
- mortality improvements
- salary increases
- commutation rates

Discount rates

3.28 A way of measuring the level of prudence built into the pre-retirement discount rate used to assess past service liability is by considering the implied asset outperformance within the discount rate (the implied real return above the risk free return within the discount rate) (see Appendix B.8 for more details). Note this applies to all assets, not just 'return seeking' assets. The following chart illustrates implied asset outperformance ranges within the discount rate used to assess past service liability[6], by firm of actuarial advisors.

Chart 3.1: Implied asset outperformance



[6] Note that some funds use different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

3.29 We would expect some fund-by-fund variation due to asset strategy and different levels of risk appetite. Therefore we do not consider the fact that funds adopt different discount rates to be a particular cause for concern. Future asset returns are highly uncertain, and so there is a wide range of reasonable assumptions that may be adopted.

3.30 We are not stating that any particular set of assumptions adopted is not reasonable. However it does appear that they are not consistent with each other.

3.31 Chart 3.1 illustrates one aspect of this difference in assumptions applied by the four firms of actuarial advisors. The funds advised by Hymans Robertson tended to show the lowest level of asset outperformance within the discount rate. Those advised by Mercer sit in the middle of the range, and the funds advised by Aon and Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.[7]

3.32 We might expect less bunching by firm of actuarial advisors if discount rates were set according to local conditions. The discount rate chosen appears to depend on the choice of firm of actuarial advisors. In this regard, we consider the aim of section 13 under consistency may not be achieved.

3.33 We acknowledge, given there are multiple funds advised by four different actuarial advisors, that there is difficulty ensuring consistency of methodologies and assumptions used. This, in conjunction with adequate disclosure in the reports, should allow comparison by a reader of the reports. Consistency is, however, one of the four aims of section 13 and we consider that to improve consistency, stakeholders should work together to overcome some of these difficulties.

Mortality improvements

3.34 The mortality assumption is a function of current (or base) mortality and expectations for future improvements. It is reasonable to set the base mortality assumption on local data. However, mortality improvements must be based on a projection, such as the Institute and Faculty of Actuaries' CMI projections[8] with an assumed rate of future increases counted separately. The assumed long term rates of future mortality improvements for males and females are summarised in Chart 3.2 below:

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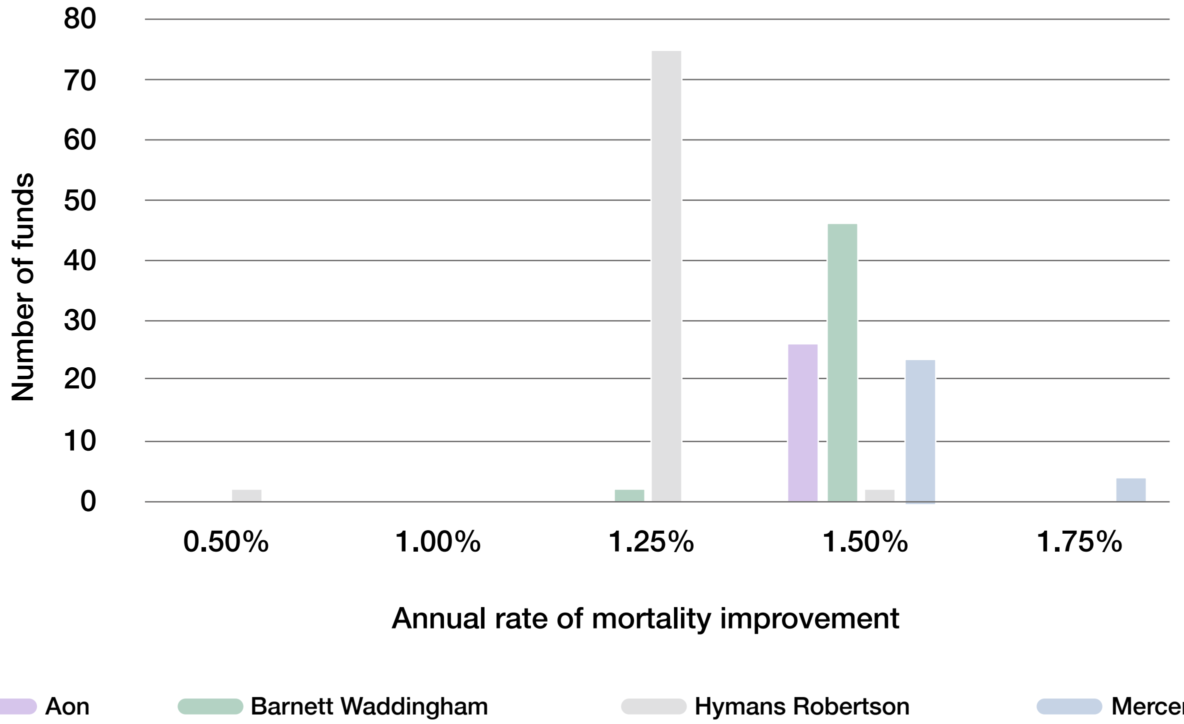
7 The asset outperformance in Chart 3.1 relates to the discount rate for past service liabilities only. For setting future service contribution rates, Hymans Robertson use a stochastic approach . Mercer follow a deterministic method, but add eg 0.5% to the discount rate for setting contribution rates.

8 https://www.actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-investigations/mortality-projections

Chart 3.2: Mortality improvements assumptions for males and females



3.35 Hymans Robertson tends to assume a rate of mortality improvement 0.25% lower than that of the three other firms of actuarial advisors. Hymans Robertson also use an earlier mortality improvements model. The other three firms of actuarial advisors used higher improvement rates and based their mortality improvements on more recent projections. This is understandable because it is difficult to assess future mortality trends, and during the period up to 2016 there was considerable uncertainty in the direction of these trends. The assumption adopted by each fund appears to be heavily influenced by the advisor rather than any local considerations. Each assumption falls within an acceptable range, but we consider it would be helpful if the four firms adopted a consistent assumption for this item.

Salary increases and commutation assumptions

3.36 The rate of promotional pay increases and commutation (the extent to which members on average exchange pension in favour of a tax free cash benefit) assumptions appear in the case of some of the firms of actuarial advisors to be set as a house view rather than an approach clearly based on local conditions. Charts B5 and B6 in Appendix B illustrate this.

3.37 Most firms of actuarial advisors confirmed they perform some analysis under both these areas. In some cases this appears to result not in local variation, but rather an average assumption across the funds under a given advisor. The firms of actuarial advisors cite lack of materiality in some cases, which we consider reasonable. However, in these cases, we believe it would be helpful to use a common assumption across all funds to aid comparability.

Conclusion and recommendations

3.38 Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. We interpret this in a presentational and evidential way. We consider the criterion has not been achieved if a user is not able to draw comparisons between the results from two valuation reports.

3.39 Stakeholders may wish to set out objectives for a possible project to improve consistency to help readers to understand the prudence being used in the report with regard to both past service liabilities and aggregate contribution rates. These objectives may include:

- a framework for relevant assumptions to be set by local government collectively
- recognition that, where appropriate, assumptions should be set according to local conditions, following review of local experience and discussion with relevant stakeholders
- assumptions should be set consistently, in that different assumptions should be clearly justified by specific local circumstances (eg different asset strategies, different risk appetites, different local mortality experience)

3.40 Examples of where the criterion may not have been achieved include:

- some remaining inconsistency in reporting of whole of fund secondary contribution rates
- assumptions with a marked difference for funds advised by the different firms of actuarial advisors that cannot be justified by local differences:
  - mortality improvements
  - discount rate
  - salary increases
  - commutation

3.41 These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

Recommendation 1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the MHCLG minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.

3.42 We set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders. Such a dashboard could facilitate comparison both between funds and between successive valuations of the same fund.

Table 3.4: Possible dashboard for inclusion in valuation reports

Item	Proposed format
Funding level (assets/liabilities)	%
Funding level (change since previous valuation)	%
Market value of sssets	£m
Value of liabilities	£m
Surplus (deficit)	£m
Deficit recovery end point	year
Change in deficit recovery end point	+/- number of years
Primary contribution rate (average for the fund)	£ pa, % of pay
Secondary contribution rate (average for the fund)	£ pa, % of pay
Total employer rate (average for the fund)	£ pa, % of pay
Total employer rate (change since previous valuation)	£ pa, % of pay
Employee contribution rate	£ pa, % of pay
Discount rate(s)	% pa
Assumed pension increases (CPI)	% pa
Method of derivation of discount rate, plus any changes since previous valuation	Freeform text
Life expectancy for current pensioners – men age 65	years
Life expectancy for current pensioners – women age 65	years
Life expectancy for future pensioners – men age 45	years
Life expectancy for future pensioners – women age 45	years
Funding level on SAB basis (for comparison purposes only)	Simple overall percentage

3.43 We note that such a dashboard would facilitate comparison between funds, but should not be translated into funding advice.

Recommendation 2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

Academies

3.44 MHCLG has asked GAD to review academy contribution rates under the heading of consistency, following recent work led by the SAB.

3.45 We conducted our investigation based on data provided by the firms of actuarial advisors in order to understand how academies are being treated in the LGPS. The outcomes of this investigation are summarised below.

3.46 The SAB has identified two work-streams – administration and funding – and plans to complete its work and make recommendations to ministers later this year.

GAD's investigations

3.47 GAD's report is published here.[9]

3.48 The analysis concluded that:

- on average academies currently pay 2% of payroll less in contributions than local authorities (LAs) (21% on average for academies, 23% on average for local authorities)
- there is a high degree of variability in individual contribution rates
- academies are treated consistently with LAs, suggesting that the DfE guarantee is currently being recognised by funds
- given the existing approach for setting academy contribution rates, we would expect (material) nationwide variation between individual academy contribution rates and LA contribution rates to persist in future. Further, the extent of the variation observed at the 2016 valuation could potentially increase, particularly if there is a large increase in the number of new academies

Conclusions and recommendations

3.49 We concluded that, on average, academies were treated fairly in relation to LA employers, but there was considerable inconsistency in methods adopted for allocating initial assets to the academies, and in some cases the period for repaying initial deficits, and this has contributed to a wide range of contribution rates paid by academies.

3.50 Two streams are being pursued by the SAB:

- administration stream: we support the work of the SAB in seeking to simplify and streamline administration processes, noting that these improvements are not just relevant to academies, but to all employer groups
- funding stream

3.51 One area that can improve consistency of treatment between academies is the allocation of assets upon conversion to academy status. Consistency in the basis adopted at conversion, in particular for allocation of assets between the academy and the fund, and for the deficit recovery period, will help provide clarity to multi academy trusts about the costs associated with conversion.

Recommendation 3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740947/Academies_analysis_report_final.pdf


BALANCE
SAVINGS

4
Solvency

Key solvency findings

- Most funds in the LGPS meet the conditions required to be able to demonstrate solvency and in general funding levels have improved significantly across the scheme since the dry run.
- In total, 74 out of 89 funds tested had green flags on all solvency measures, an improvement since the dry run (56 out of 90).
- We have highlighted a number of funds where substantial contribution increases may need to be absorbed. Although we did not conclude that the aims of section 13 were not achieved, we believe fund managers should be aware of this risk.
- We recommend that West Midlands Integrated Transport Authority Pension Fund puts a plan into place to ensure the fund is able to continue to meet benefits in the event that no future contributions are available.

4.1 Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the fund is set at an appropriate level to ensure the solvency[10] of the pension fund.

4.2 In this chapter we:

- provide a definition of solvency
- provide some background on solvency issues, and the measures and flags we have used in considering them
- consider the potential volatility of contributions through an asset liability study
- set out flagged solvency risks for open funds
- discuss the solvency risks for West Midlands Integrated Transport Authority, which is a closed fund

Definition of solvency

4.3 We do not regard that solvency means that a pension fund should be 100% funded at all times. Rather, in line with the definition in CIPFA's Funding Strategy Statement guidance[11] which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure solvency of the pension fund if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over

[10] The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at "such a level as to ensure that the scheme's liabilities can be met as they arise".

[11] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

an appropriate time period and using appropriate actuarial assumptions

and either:

- 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

- there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed

Background on solvency

4.4 Most funds have improved their funding level since the 2013 valuations. For example, on GAD's best estimate basis, the aggregate funding level across all LGPS funds at 2016 had improved from around 93% to approximately 106%, and around 60 funds were in surplus on this basis. This means that we expect, on average, there is a greater than 50% chance that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

4.5 In the case of tax-raising employers, accommodating contribution variability is a political, as well as financial, consideration. We consider it is important that administering authorities and other employers understand the potential range of future cost, so that they can understand the affordability of potential future contribution requirements.

4.6 We have performed some asset liability modelling work to help illustrate the potential for variation in contribution rates that may be required if foreseeable variations to market conditions were to occur.

4.7 We have assessed risk against a range of measures and have highlighted funds where we believe specific risk is present. These are risks of potential contribution volatility that managers should be aware of. Managers should consider actions required to manage these risks, but accepting the risk may be a valid option. The flag does not imply that anything has gone wrong and maintaining the flag does not imply that we take issue with any decision to accept the risk. The amber flag is an indication that the risk is accepted or has not been mitigated – it is not implying that the administering authority is unaware of the risk.

4.8 All funds should be aware of their solvency position, to ensure that the relevant plans are in place to be able to pay benefits when they fall due and employers are able to accommodate potential future increases in contributions.

4.9 This is particularly important in the case of mature funds, where volatility of contributions may be greater. In particular, they should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the potential environment of no future employer contributions.

4.10 We note that, in total, 74 out of 89 funds had green flags on all solvency measures, a significant improvement since the dry run (56 out of 90).

4.11 Flagged measures in this report include:

- SAB funding level, where we have highlighted as a risk to be aware of the ten open funds with the lowest figures. This is a purely relative, existing risk
- asset shock, where we have highlighted four funds that could be required to absorb a large increase in contribution rates (relative to core spending power for all but one fund) should a significant, sustained shock occur

Volatility of contributions: asset liability study

4.12 Volatility of asset returns and changes in economic conditions may place significant pressures on the future rate of employer contributions.

4.13 We performed an asset liability study to investigate and help quantify these pressures. The asset liability study provides a simultaneous projection of the assets and liabilities of the scheme under a large number of stochastic economic scenarios to demonstrate potential funding and hence contribution outcomes of the scheme under different potential circumstances.

4.14 For the purpose of assessing liabilities and determining contributions, assumptions are needed on what set of assumptions will be used to carry out an actuarial valuation at each future point in time being considered. In our modelling we have assumed that:

- changes to the financial assumptions will reflect market conditions at the valuation date (specifically, long term gilt yields)
- the length of the recovery period is fixed at 20 years at each valuation to approximate what funds are doing in practice

4.15 The output of the model is the upwards or downward pressure on contribution rates assuming that the impact of changes in economic conditions feeds through directly to contribution setting.

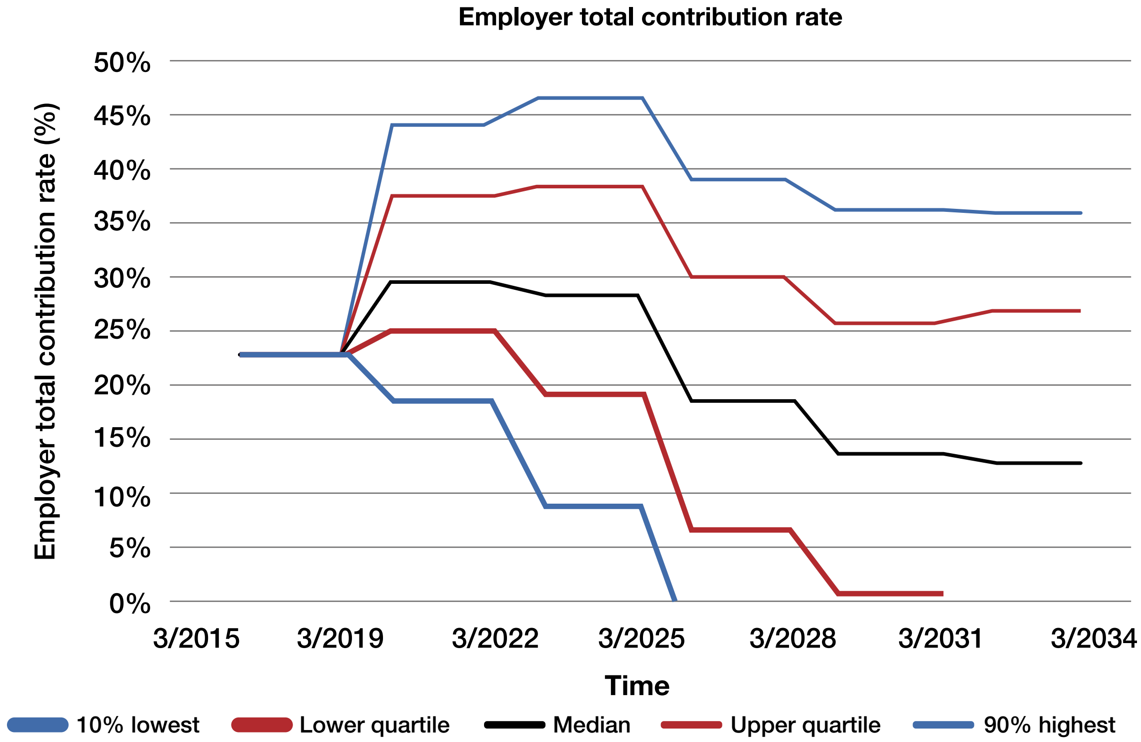
4.16 In practice we might not expect these pressures to feed directly into changes in employer contribution rates, because for example, if there was a downward (or upward) cost pressure the following adjustments might be considered:

- asset strategy might be made more defensive which would be expected to reduce future volatility but would reduce the scope for reducing contributions (conversely, if there was an upward cost pressure, the asset strategy might be made more return seeking)
- the length of the recovery period might be reduced (conversely, if there was an upward cost pressure, the length of the recovery period might be increased)
- the level of prudence might be increased, which could reduce the chance that future experience was worse than assumptions, but could also limit the scope for reducing contributions (conversely, if there was an upward cost pressure, the level of prudence might be reduced)

4.17 The output of the model should not therefore be regarded as predictions of changes in future employer contribution rates, but rather the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- increasing the length of recovery periods transfers costs onto future generations
- choosing a more return seeking asset strategy would be expected to increase volatility and risk

Chart 4.1 Range of employer total contribution rate



4.18 Chart 4.1 illustrates the potential upward or downward pressures on employer contribution rates. The black line represents the median[12] expected outcome, the red lines the 25th and 75th percentile[13] outcomes and the blue lines the 10th and 90th percentile outcomes.

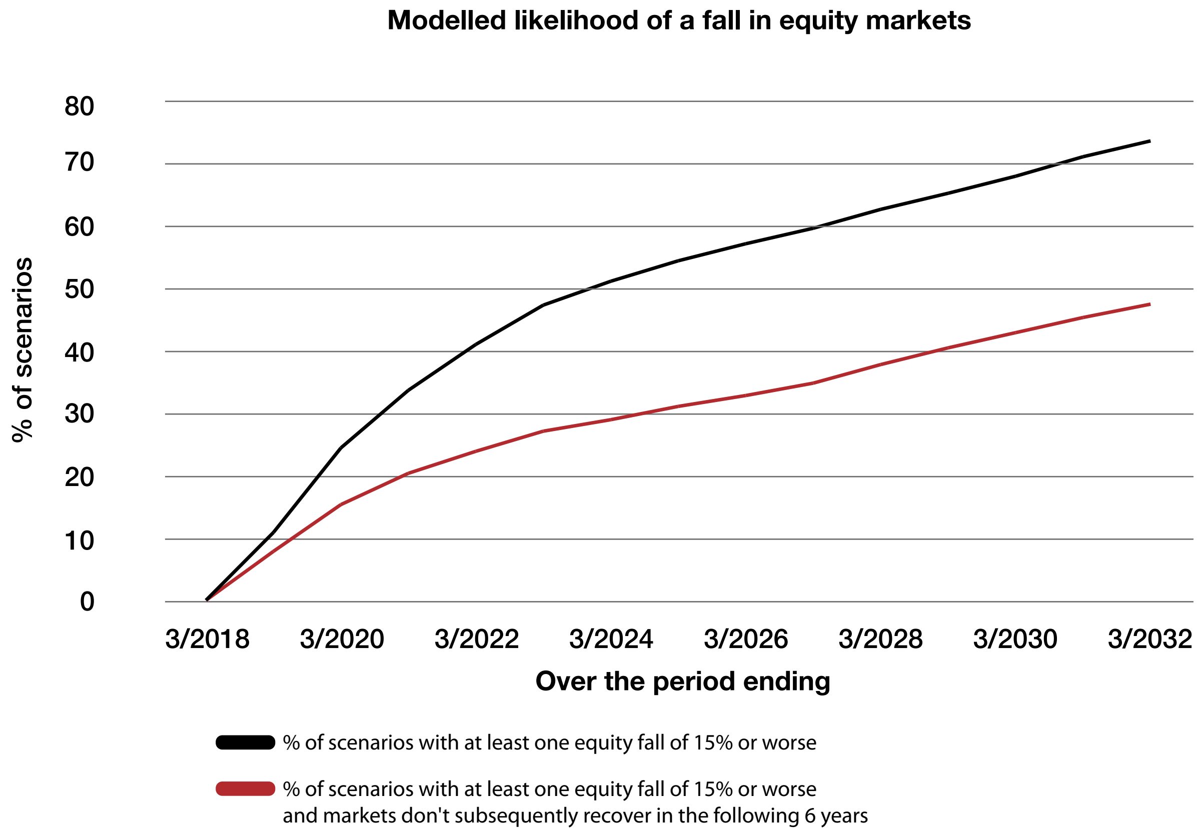
4.19 Chart 4.2 illustrates the cumulative risk[14] that equity markets fall over 12 months by more than 15% at some point over the next 20 years, and the chances of those markets not recovering within two valuation cycles. This indicates the scenario envisaged in our asset shock measure is plausible.

[12] The median is the central outcome of the range, which means, according to the model, the actual outcome is equally likely to be higher or lower than the median. Note that the median is the middle outcome at each point in time. The median line does not represent a prediction of outcomes.

[13] The 25th and 75th percentile outcomes represent the outcomes where there is a one in four chance the outcome will be more extreme in the relevant direction. For the 10th and 90th percentile outcomes, there is a 10% chance of a more extreme outcome.

[14] This is an output from our model, which itself is dependent on assumptions/economic scenario generator underlying that model, for example in relation to equity market mean reversion. Different models will produce different outcomes. Our model assumes discount rates are driven from underlying gilt yields with a variable equity outperformance assumption.

Chart 4.2 Modelled likelihood of a fall in equity markets



Key message

4.20 It is highly likely that there are significant developments between each valuation that could result in relatively large pressures on employer contribution rates. In particular, after removing potential trends in the projected future contribution rate, we estimate that, based on economic circumstances alone, there is around a 30% chance of an upward pressure of 8% of pay or more and a 30% chance of a downward pressure of 8% of pay or more. This should not be regarded as a prediction of the changes in future employer contribution rates, because adjustments might be made to manage such pressures as discussed above.

4.21 In addition to the key message above, the asset liability study provides further illustration of possible changes in contribution rates.

- **In the short term, there may be upwards pressure on employer contributions at the next valuation cycle.**

This primarily reflects the modelled reduction in valuation discount rates, relative to the last valuation – as a result of falling gilt yields although this is mitigated by strong asset returns since 2016. In practice, the upward pressure on contributions may be further managed (perhaps to the point that upward pressures are relieved) if valuation discount rates (relative to gilt yields) increase or by other changes.

- **In the medium to longer term, employer contributions are expected to fall, such that they are expected to be lower than current contribution levels.**

This reflects reducing deficit repair contributions and expected asset outperformance from growth assets. Depending on the assumptions made about future gilt yields and return expectations, there may also be increases in valuation discount rates which further ease contribution pressures.

- **There remains a risk that contributions are materially higher than current levels.**

There is still a significant chance that economic assumptions and factors do not turn out as expected and contribute to a deterioration in the scheme's funding position or cost of accrual that lead to significant upward pressure on employer contributions.

4.22 These messages are illustrated in charts in Appendix E which shows the median and outer percentile results of this exercise. Employer total contributions include the cost of ongoing benefit accrual and deficit recovery contributions where appropriate, less member contributions, aggregated across all funds.

Solvency risks for open funds

4.23 In the following tables we illustrate the results of the solvency measures we have used for each of the individual funds in the LGPS where at least one measure of solvency was amber or red. In Appendix C (Table C1) we set out the considerations with regards to risks already present and emerging risks, and map these to the measures we have adopted for this exercise.

SAB funding level

4.24 The SAB basis is a useful measure to compare the relative funding position of each fund, but it is not a market related basis, and is therefore not directly appropriate for funding purposes. Our definition of solvency does not require a fund to be 100% funded on any given basis at all times. Rather, this measure gives an indication of the extent of remedial action that may be required to ensure solvency. Long term cost efficiency measures are designed to check whether funds are taking suitable steps to improve the level of funding. Table 4.1 outlines those funds in the lowest decile for funding level (the measure is the distance from the average funding level).

4.25 We have engaged with the funds with the lowest SAB funding levels. Most have indicated they have plans to improve funding levels over time, by paying increased deficit contributions. Brent, in particular, indicated that their long term budgeting process allows for these expected contributions over the full term of the expected deficit recovery period, which we acknowledge. If other funds set similar long term budgets this would help to demonstrate solvency. In our engagement with Worcestershire Pension Fund, the administering authority highlighted that their funding position has increased significantly and that their strategy for investments now includes equity protection. This was adopted during early 2018 and runs past the next actuarial revaluation. The fund is assessing its investment strategy and risk appetite also before the next valuation.

Table 4.1 – Funds with an amber flag on SAB funding level

Pension fund	SAB funding level distance from mean
Bedfordshire Pension Fund	-13%
City of London Corporation Pension Fund	-11%
London Borough of Barnet Pension Fund	-13%
London Borough of Brent Pension Fund	-29%
London Borough of Croydon Pension Fund	-15%
London Borough of Havering Pension Fund	-17%
London Borough of Waltham Forest Pension Fund	-19%
Royal County of Berkshire Pension Fund	-23%
Somerset County Council Pension Fund	-15%
Worcestershire County Council Pension Fund	-11%

Asset shock

4.26 We have performed a series of tests in relation to emerging risks. These are stress tests in relation to what may happen if certain events occur. Asset shock considers the scenario of a sustained reduction in the value of return seeking assets. For example, this could be a market correction in which asset values do not immediately recover, and therefore cannot be absorbed by a change in assumptions. In this scenario we model the additional contributions that would be required to meet the emerging deficit (as opposed to the total contributions required following the shock). We are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

4.27 We consider these additional contributions in the context of the financial resources of the underlying statutory employers, for which we have used core spending power[15], as a proxy as advised by MHCLG. A shock which generates high additional contributions as a proportion of core spending power generates a flag, as this may indicate that the local authority may be less likely to be able to absorb substantial contribution increases without affecting core services. Funds with a high level of return seeking assets (whether due to a high funding level or their strategic asset allocation between return seeking and defensive) are more exposed to asset shocks and more likely to trigger this flag. More detail is given in Appendix C. We note core spending power does not represent all sources of income for all local authorities.

4.28 The funds in table 4.2 have generated an amber flag for the asset shock. We consider that an asset shock flag, on its own, does not imply that the aims of section 13 are not achieved, and so do not recommend immediate remedial action. Rather, we believe this may indicate some risk in relation to solvency that fund managers should be aware of and monitor over time.

[15] See definition in Appendix C

4.29 We also developed two other stress tests:

- liability shock (in which we consider the impact of an increased liability value as a result of sustained lower interest rates)
- employer default shock (in which non-statutory employers are assumed to default on their pension liabilities, so their deficit transfers to remaining employers)

In practice we considered that the liability shock was not independent of the asset shock and few funds triggered the employer default shock, so we have opted not to highlight the results in this report.

Asset shock - specific engagement outcomes

4.30 We note that, with the exception of London Pensions Fund Authority, the other three amber flags relate to metropolitan funds. The main driver for this is the fact that the pension liabilities for the metropolitan funds are relatively high compared with their core spending power, rather than differences in asset strategies. Further analysis would be required to determine whether there is a different relationship between core spending power and other financial resources in the metropolitan funds, compared with non-metropolitan funds.

Table 4.2 – Funds with an amber flag on asset shock

Pension fund	Asset shock increase in contributions as a % of CSP
South Yorkshire Pension Fund	3.0%
Tyne and Wear Pension Fund	3.5%
West Yorkshire Pension Fund	3.7%
London Pensions Fund Authority Pension Fund	Amber

South Yorkshire Pension Fund

4.31 In our engagement with South Yorkshire Pension Fund, the administering authority highlighted that their investment now includes equity protection, which is intended to protect against falls in equity markets of between 5 and 30% over two years, while giving up gains above 14.25%. As such, if the strategy works as intended this will insulate the fund against the sort of major shocks we have modelled. This strategy was implemented during 2018.

4.32 This form of equity protection may be a suitable approach to protecting against shocks in the market. We make some brief comments about the operation of this strategy in Appendix C, however we do not comment on the effectiveness of this strategy.

4.33 We welcome the fact that South Yorkshire Pension Fund in consultation with the fund's employers has recognised that a risk does exist, and has reviewed the options available, and taken positive action. We maintained the asset shock flag for this report, because it the strategy was implemented after the 2016 valuation date. But if it remains in place, we will do further analysis in the next section 13 report.

London Pensions Fund Authority Pension Fund

4.34 LPFA is a special case as it has no core spending power and is a fund with primarily legacy liabilities. In the case of LPFA, the asset shock flag indicates a risk of a significant increase in contribution rate expressed as a percentage of pensionable pay. We engaged with LPFA. They considered pensionable pay as an incomplete representation of their ability to meet contribution variation. We intend to continue to engage with LPFA at the next section 13 exercise to further understand their particular circumstances.

Tyne and Wear Pension Fund, West Yorkshire Pension Fund

4.35 We engaged with both funds. They each considered core spending power as an incomplete representation of their ability to meet contribution variation.

Closed Funds: West Midlands Integrated Transport Authority

4.36 Funds that are closed to new members typically have decreasing payrolls, and funds which may be large relative to that payroll. This may lead to reduced scope to be able to meet variations in contributions. This in turn means that they may require outside funding in the future, which in turn may be uncertain, for example if there is no specific commitment from a guarantor.

4.37 The Environment Agency Closed Pension Fund has been excluded from the analyses in this report as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

4.38 South Yorkshire Passenger Transport Pension Fund's assets and liabilities have been transferred to the Greater Manchester Pension Fund, hence we have not considered the fund further.

4.39 West Midlands Integrated Transport Authority Pension Fund (WMITA) is the only remaining fund that is closed to new members and fully private sector backed. Tables 4.4 and 4.5 set out the red flags generated by WMITA.

Table 4.3 – Closed funds with an amber or red flag on open fund measure

Pension fund	Open fund
West Midlands Integrated Transport Authority Pension Fund	No

Table 4.4 –Closed funds with an amber or red flag on non-statutory employees

Pension fund	Non-statutory employees
West Midlands Integrated Transport Authority Pension Fund	100%

Specific engagement outcomes

4.40 Heightened employer covenant risk from the two non-statutory employers in this fund has been mitigated in part through guarantee arrangements, which provide some (albeit limited) additional financial capacity.

4.41 It is a relatively small fund, with total assets of around £500m.

4.42 If the employers were operating in a private sector pension scheme, PPF protection to members' benefits would apply. However, PPF protection does not apply to LGPS funds.

4.43 We consider two scenarios in which the solvency of the fund may be at risk:

- if the existing employers both exited the funds (by meeting the exit requirements under Regulation 64), there would be no fall-back in the event that the funds were ultimately insufficient to meet benefits when due
- if the last remaining employer defaulted and the employer (allowing for any remaining guarantee arrangements) was unable to meet its exit requirements

4.44 One employer (with a smaller share, approximately 5% of liabilities) has no active members and is almost sufficiently funded (as at 31 March 2016) to be able to exit the fund. The other employer has remaining but reducing active members and has in collaboration with the Administering Authority taken significant steps in recent years towards reducing reliance on employer covenant and ensuring solvency.

Ongoing contributions are around 25% of pensionable pay. These are supplemented by around £7m per year to help pay off the deficit. This leads to total contributions of around 80% of payroll. This represents a significant commitment on the part of the employer towards the solvency of the fund.

Independent covenant review, obtained from specialist advisers appointed by the Administering Authority, assessed employer strength as "tending to strong", as at March 2016.

The fund's assets include a Prudential 'buy in' product. This was implemented to cover all pensioners as at 2011, albeit excluding increases in payment. We understand further asset changes are underway to protect the funding position.

4.45 We have engaged extensively with the administering authority for WMITA. We also engaged with the respective employers following the dry run. We understand the administering authority recognises the risk and is working to mitigate it.

Recommendations

4.46 A plan should be put in place for WMITA to ensure that members' benefits are able to be met from the fund when due in an environment of no future employer contributions being available, to ensure the aims of section 13 are achieved.

4.47 We recommend that the administering authority put such a plan in place and that MHCLG review that plan.

4.48 Following our dry run report, the only other passenger transport fund in existence at that time has merged with the Greater Manchester Pension Fund. Such a merger could reduce the dependency on a single employer.

Recommendation 4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.


289.33

5
Long term cost efficiency

Key long term cost efficiency findings

- Funding levels have improved on a best estimate basis, partly as a result of asset performance and partly due to increased contribution levels since the dry run.
- In total, 83 out of 89 funds had green flags on all long term cost efficiency measures. There are a total of 6 amber and no red flags, an improvement since the dry run (14 amber and 3 red).
- We recommend all funds review their funding strategy statement to ensure handling of surplus or deficit is fair to both current and future taxpayers.
- A small number of funds have extended their deficit recovery plan in conjunction with a reduction in employer contributions.

5.1 Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency[16] of the scheme, so far as relating to the pension fund.

5.2 In this chapter we:

- provide a definition of long term cost efficiency
- provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them
- set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period

Definition of long term cost efficiency

5.3 In line with the definition in CIPFA's Funding Strategy Statement guidance[17], which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Background on long term cost efficiency

5.4 Long term cost efficiency relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

[16] Explanatory notes to the Act state that: "long term cost efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."

[17] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

5.5 Following the 2013 valuations, 13 funds (14%) were in surplus on our best estimate basis. Following the 2016 valuations, that number has improved significantly to around 60 funds (67%). This follows a particularly strong period of asset outperformance, but also greater levels of contributions being paid into some funds.

5.6 Since much of our focus under long term cost efficiency is around deficit recovery on the best estimate basis, there are few flags being raised, and some of the flags raised in the dry run have been eliminated. In total, 83 out of 89 funds had green flags on all long term cost efficiency measures. There are a total of 6 amber and no red flags, an improvement since the dry run (14 amber and 3 red).

5.7 Other than Deficit Reconciliation and Deficit Recovery Period no flags were raised under the other long term cost efficiency measures. This can be interpreted as the funds' employers are on average paying sufficient contributions into their funds at present.

5.8 The two funds that gave rise to concerns in the 2013 dry run report were:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

5.9 Both Berkshire and Somerset Pension Funds flagged under all 2013 LTCE measures other than deficit extension.

5.10 Both funds' employers have addressed many of the concerns raised, and in particular have increased their contributions compared to the 2013 contributions in addition to both funds benefitting from improved funding levels.

5.11 For the 2016 report, Berkshire raises a flag under the deficit period measure. On further engagement, Berkshire indicated a commitment to repaying the deficit. Berkshire also flagged on funding level under solvency.

5.12 Somerset does not raise any flags under LTCE measures in the 2016 report.

Deficit reconciliation

5.13 CIPFA's Funding Strategy Statement guidance[18] states "Administering authorities should avoid continually extending deficit recovery periods at each and subsequent actuarial valuations. Over time and given stable market conditions, administering authorities should aim to reduce deficit recovery periods."

5.14 There are different interpretations of CIPFA's guidance – in particular 'deficit recovery periods' might be interpreted to mean either:

- the period over which deficit recovery contributions are paid (a recovery plan following the 2013 valuations might have been payable over the 2014 to 2034), in which case the CIPFA guidance suggests the period should not be continually extended beyond 2034
- the length of period – ie 20 years in the example above – in which case the CIPFA guidance suggests 20 years should not be continually increased and in stable market conditions, administering authorities should aim to reduce the length of the deficit recovery period

5.15 This first interpretation is in line with guidance from the Pensions Regulator (tPR) for private sector schemes. We believe that, despite differences in environment and covenant value of employers, principles set out by tPR are a useful guide.

[18] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

5.16 An extract of tPR's funding statements is reproduced below.

Type	Scheme characteristics	What we expect of trustees
a. With strong or tending to strong employers	Where the scheme's funding position is on track to meet their funding objectives and where technical provisions are not weak and recovery plans are not unduly long	As a minimum to **continue with their current pace of funding by not extending their recovery plan end dates** unless there is good reason to do so
b. With strong or tending to strong employers	With a combination of weak technical provisions and long recovery plans.	**To seek higher contributions now** to mitigate against the risk of the employer covenant weakening and other scheme risks materializing in the future

5.17 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.

5.18 We understand that new deficit may emerge between valuations, as a result of the fund's experience, in which case it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

5.19 We consider that reconciliation of the deficit recovery plan is an important component of section 13 for all funds.

5.20 Through this exercise, we have identified and engaged with a number of funds that have extended their deficit recovery end points. We have not concluded that this implies the aims of section 13 are not achieved, however we do recommend that all funds review their funding strategy and consider whether this is in accordance with the CIPFA guidance referred to above.

5.21 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point being extended further into the future (increasing the burden on future taxpayers).

Recommendation 5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

5.22 A significant minority of funds (37 of 91) have maintained their plans to eliminate their deficit (on their own funding basis). Of the remaining 54 funds, according to the data provided, 37 had increased contributions and 5 left them unchanged (expressed as a percentage of pensionable pay). We have engaged with the remaining 12. Through the engagement process, 8 were able to demonstrate that they had in fact increased contributions, or that their chances of deficit recovery are not reduced at the previous end point. We consider this is consistent with the aims of section 13.

Table 5.1 – Funds with an amber flag on deficit reconciliation measure

Pension fund	Deficit recovery plan
London Borough of Lambeth Pension Fund	+ 3 years
London Borough of Merton Pension Fund	+ 3 years
London Borough of Newham Pension Fund	+ 3 years
Royal Borough of Kingston Upon Thames Pension Fund	+ 2 years

5.23 We acknowledge that extending deficit recovery periods is appropriate in some circumstances, for example when new deficit emerges.

5.24 We engaged with those funds who appear to have extended their deficit recovery end point in conjunction with a reduction in overall contributions. However, where funds have been able to demonstrate that the probability of being fully funded at the previous recovery plan end point is not reduced, we have not flagged them.

Commentary from engagement in relation to deficit reconciliation

5.25 We have engaged with the funds listed above and listened to their decision making process in relation to this aspect.

London Borough of Lambeth Pension Fund

5.26 Following the 2013 valuation, Lambeth council opted to pay more than their actuary's central recommendations which would have implied a shorter recovery period than that set out in their funding plan at those times and requested that the Rates and Adjustments Certificates reflect their desire to pay more than required. However, as a result of budgetary pressures, the council have needed to reduce contributions. Therefore, some of the reduction in the 2016 SCR has been driven by the removal of these additional contributions which will have given the appearance of the fund extending its deficit recovery plan (but in actuality this put them back onto the underlying plan).

5.27 In addition, the fund reviewed both its funding and investment strategies with the ultimate goal of giving the Fund a two-thirds probability of full funding over a 20 year period.

London Borough of Merton Pension Fund

5.28 Similarly to Lambeth, Merton council opted to pay significant additional contributions into the fund following the 2013 valuation. They paid these contributions in lump sum form, rather than spreading them, and subsequently have had to reduce their contributions to a level below the 2013 level, excluding the lump sum contributions.

5.29 We acknowledge that Merton have made considerable contributions, and have a relatively short deficit recovery period. However, we have retained the flag, because following the 2016 valuation employer contribution rates were decreased (reducing the burden on current taxpayers) while at the same time as extending the deficit recovery end point (increasing the burden on future taxpayers).

London Borough of Newham Pension Fund

5.30 Newham council stated they paid contributions above minimum into the fund following the 2013 valuation and subsequently have had to reduce their contributions to a level below the 2013 level.

Royal Borough of Kingston upon Thames Pension Fund

5.31 Kingston extended their deficit recovery end point by 2 years. Kingston have also reduced their contributions by around 2%. They indicate that the level of contributions is above the minimum level implied by their actuary's model.

5.32 In general, most funds referred to the improvement in funding level and affordability of contributions in the light of other demands on budgets. These are all valid concerns, however we consider under section 13 that this involves a risk under long term cost efficiency.

Deficit recovery period

5.33 We included, as a relative measure, deficit recovery period. This refers to the period expected to repay the deficit, restated on our best estimate basis (see Appendix G), on the assumption that fund contributions are maintained at the current level.

5.34 Two funds also flagged on our deficit recovery period measure, having particularly long deficit recovery periods (after adjusting to our standardised best estimate basis). We consider this to be a risk, but not on its own, contrary to the aims of section 13 under long term cost efficiency, noting that these two funds appear in Table 4.1: Funds with an amber flag on SAB funding level.

Commentary from engagement in relation to deficit recovery period

5.35 In this case, we consider that these funds are carrying a risk that fund managers should be aware of, but we do not consider this sufficient to warrant a recommendation.

5.36 In our engagement with the Brent Pension Fund it is clear that Brent have taken significant steps towards addressing the deficit. Contribution rates are relatively high at an average of 33.6% of pensionable pay over the period 2017/18 to 2019/20 and the deficit recovery plan has been adhered to (the recovery period has reduced from 22 years at 2013 to 19 years at 2016, maintaining the same deficit recovery period end point). This demonstrates that Brent understands the issue and have made a strong commitment to reducing the deficit.

Table 5.2: Open funds with amber flag on deficit recovery period

Pension fund	Deficit recovery period (years)
London Borough of Brent Pension Fund	10
Royal County of Berkshire Pension Fund	13

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Review of the Actuarial Valuations of Funds as at 31 March 2016 pursuant to Section 13 of the Public Service Pensions Act 2013

Appendices

Date: 27 September 2018

Author: Martin Clarke, John Bayliss

Contents

Appendix A: Compliance

A.1 In this appendix we set out checks we conducted to determine whether the actuarial valuations of the 91 Local Government Pension Scheme (LGPS) funds have been completed in accordance with the scheme regulations.

Statement of Compliance

A.2 GAD selected one fund as a representative example from each of the firms of actuarial advisors. The following statements of compliance were contained within the chosen reports by each firm:

Compliance with valuation regulations

Actuarial Valuation Reports Regulation 62 (1 - 2)

A.3 Regulation 62 (1) requires the administering authority to obtain an actuarial valuation report on the assets and liabilities of each of its pension funds, including a rates and adjustments certificate, as at 31st March 2016 and on 31st March in every subsequent valuation year. Regulation 62 (2) requires that the above documents be obtained by the first anniversary of the date at which the valuation is made, namely, 31 March 2017 in the case of the 2016 valuation.

Publication

A.4 Each chosen fund was published in accordance with regulations. The following table sets out dates of publication of the actuarial report.

Table A1: Statement of Compliance

Fund	Statement of Compliance
Merseyside (Mercer)	This report is addressed to the Administering Authority of the Merseyside Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 62 of the Local Government Scheme Regulations 2013 (as amended) ("the Regulations").
Haringey (Hymans Robertson)	We have carried out an actuarial valuation of the London Borough of Haringey Pension Fund ("the Fund") as at 31 March 2016 under Regulation 62 of The Local Government Pension Scheme Regulations 2013 ("the Regulations").
Hampshire (Aon)	This report was … produced in compliance with Regulation 62 of the Local Government Pension Scheme Regulations 2013
Berkshire (Barnett Waddingham)	In accordance with Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), we have been asked by Royal Borough of Windsor and Maidenhead to prepare an actuarial valuation of the Royal County of Berkshire Pension Fund (the Fund) as at 31 March 2016 as part of their role as the Administering Authority to the Fund.

Table A2: Publication Date

Fund	Publication Date
Merseyside (Mercer)	31 March 2017
Haringey (Hymans Robertson)	29 March 2017
Hampshire (Aon)	31 March 2017
Berkshire (Barnett Waddingham)	31 March 2017

Demographic Assumptions

A.5 Regulation 62 (3) states that the actuarial valuation report must contain a statement of the demographic assumptions that have been used in making the valuation, and must show how these assumptions reflect the experience that has actually occurred during the period since the last valuation. Each valuation report contains a section on demographic assumptions including all the assumptions that we would expect in an actuarial valuation report.

Table A3: Demographic Assumptions

Demographic	Merseyside (Mercer)	Haringey (Hymans Robertson)	Hampshire (Aon)	Berkshire (Barnett Waddingham)
Pre-retirement mortality	✓	✓	✓	✓
Post-retirement mortality	✓	✓	✓	✓
Dependant mortality	✓	✓	✓	✓
Ill health retirement	✓	✓	✓	✓
Normal health retirements	✓	✓	✓	✓
Withdrawal	✓	✓	✓	✓
Promotional salary scale[1]		✓	✓	✓
Family details (partners and dependants)	✓	✓	✓	✓
50:50 option take-up	✓	✓	✓	✓
Commutation	✓	✓	✓	✓

[1] Mercer combine promotional salary scale into their general pay increase assumption.

Local Experience

A.6 The regulation requires that the reports "must *show how* the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation." Most reports have *stated that* the assumptions have been updated to reflect experience. All funds have shown differences between expectations and experiences for the inter-valuation period, and the impact of these differences on the funding position. We note that this information may be contained in supporting (non-public) reports/advice.

Contribution Rates

A.7 Regulation 62 sets out that employer contributions are separated into two components: primary rates which meet the cost of ongoing accrual for current active members and secondary rates, which are mainly established to repay deficit or eliminate surplus over a given period (the deficit/surplus recovery period).

A.8 Regulation 62 (6) states that when setting the contribution rates the actuary must have regard to —

- the existing and prospective liabilities arising from circumstances common to all those bodies,
- the *desirability* of maintaining as nearly constant a common rate as possible,
- the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements), and
- the *requirement* to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

A.9 Regulation 62 (4) states that the rates and adjustments certificate must specify both the primary rate of the employer's contribution and the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

A.10 Each valuation report must set out primary and secondary employer contribution rates.

Primary Rates

A.11 Regulation 62 (5) defines the primary rate of an employer's contribution as "the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency", and specifies that this must be expressed as a percentage of the pay of their employees who are active members.

A.12 The following table shows the primary rate of employer contribution for the administering authorities whole fund:

Table A4: Primary Contribution Rates

Fund	Primary rate of Employer Contribution
Merseyside (Mercer)	15.4%
Haringey (Hymans Robertson)	17.6%
Hampshire (Aon)	17.1%
Berkshire (Barnett Waddingham)	14.3%

A.13 Each primary rate of employer contribution has been calculated to cover the cost of future benefits accrued by their employees. Each valuation also provides a breakdown of the primary rate for each employer. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer).

Secondary Rates

A.14 Regulation 62 (7) states that the secondary contribution rate may be expressed as either a percentage or a monetary amount. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer). The secondary rates of employer contributions for each valuation have been defined to be adjustments to the primary rate as required. In all cases, the secondary rates have been provided for the next three years for each employer.

Table A5: Whole Fund Secondary Contribution Rates

	Whole fund secondary contribution rates		
Fund	**2017**	**2018**	**2019**
Merseyside (Mercer)	£136,300,000 less 0.9% of pensionable pay	£52,500,000 less 0.4% of pensionable pay	£53,600,000 plus 0.1% of pensionable pay
Haringey (Hymans Robertson)	£9,252,000	£8,612,000	£9,554,000
Hampshire (Aon)	£75,680,400 less 2.9% of pensionable pay	£81,548,300 less 1.9% of pensionable pay	£87,248,800 less 0.9% of pensionable pay
Berkshire (Barnett Waddingham)	£21,017,000 or 5.3% of pensionable pay	£27,468,000 or 6.7% of pensionable pay	£34,075,000 or 8.2% of pensionable pay

Rates and Adjustments Certificate Regulation 62 (8)

A.15 Regulation 62 (8) states that the rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects— (a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.

A.16 In the following table we set out where the assumptions for each valuation can be found.

A.17 Each Rates and Adjustments Certificate contains a statement detailing the assumptions on which the certificate has been given and where to find them.

Regulation 62 (9)

A.18 Regulation 62 (9) States that the administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

A.19 Each valuation shows evidence of having received relevant data from the administering authority, including cash flows for the years 2014, 2015 and 2016.

Table A6: Location of assumptions

Fund	Statement in Rates and Adjustments Certificate	Location of assumptions in Valuation Report
Merseyside (Mercer)	✓	Appendix A
Haringey (Hymans Robertson)	✓	Appendix E
Hampshire (Aon)	✓	Appendix 5
Berkshire (Barnett Waddingham)	✓	Appendix 2 and Funding Strategy Statement

Appendix B: Consistency

B.1 In this appendix we set out analysis we undertook in relation to whether the actuarial valuations were carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. This appendix contains comments and a number of charts referring to the following aspects:

- Key information
- Funding levels
- Discount rates
- Demographic assumptions

Key Information

B.2 Based on one report from each actuarial firm, table B1 sets out the outcomes for key information that we would expect to see in each valuation.

Table B1: Key Information

Demographic	Hampshire (Aon)	Berkshire (Barnett Waddingham)	Haringey (Hymans Robertson)	Merseyside (Mercer)
Funding level (assets/liabilities)	81%	73%	79%	85%
Market value of assets	£5.2b	£1.6b	£1.0b	£6.9b
Value of liabilities	£6.5b	£2.2b	£1.3b	£8.1b
Surplus (Deficit)	(£1.2b)	(£0.6b)	(£0.3b)	(£1.2b)
Deficit recovery end point*	2036	2040	2036	2035
Primary contribution rate (average for the fund)	17.1%	14.3%	17.6%	15.4%
Secondary contribution rate (average for the fund)	See below			
Employee contribution rate	6.5%	6.5%	6.5%	6.6%
Discount rate(s)	4.5%	5.7%**	4.0%	4.2%
Life expectancies	Given	Not given	Given	Given
Funding level on SAB basis***	Not given	Not given	94%	Not given

* derived from deficit recovery period; Berkshire stated as "illustrative", Haringey in Funding Strategy Statement
** Discount rate – Unitaries = 5.7%, discount rate Non-Unitaries = 5.5%
*** we note that it was agreed with SAB this need not be presented. We recommend this be reconsidered.

B.3 Most information was included for most funds, with some exceptions. All firms of actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates. However, the summary statistics provided for the funds as a whole varied significantly between actuarial advisors. A standardised dashboard could help the reader make comparisons. We note that this information may be contained in supporting (non-public) reports/advice.

Funding Levels

B.4 Chart B1 shows how the ranking of local funding levels varies when results are restated onto the SAB standardised basis. We might expect the rankings of funding levels when calculated on the local bases to correspond roughly to the rankings of funding levels when calculated on the SAB standard basis. We would therefore expect the lines in Chart B1 joining each fund in the column on the left with itself in the column on the right to be roughly horizontal. However, we see that there is no clear correlation between how funds rank on local bases and how they rank on the SAB standard basis. To choose a typical example, Warwickshire is ranked mid-table on the local basis but is towards the top quartile of the table on the SAB standard basis, indicating that their local fund basis is, relatively, more prudent than other funds.

Chart B1: Standardising Local Valuation Results

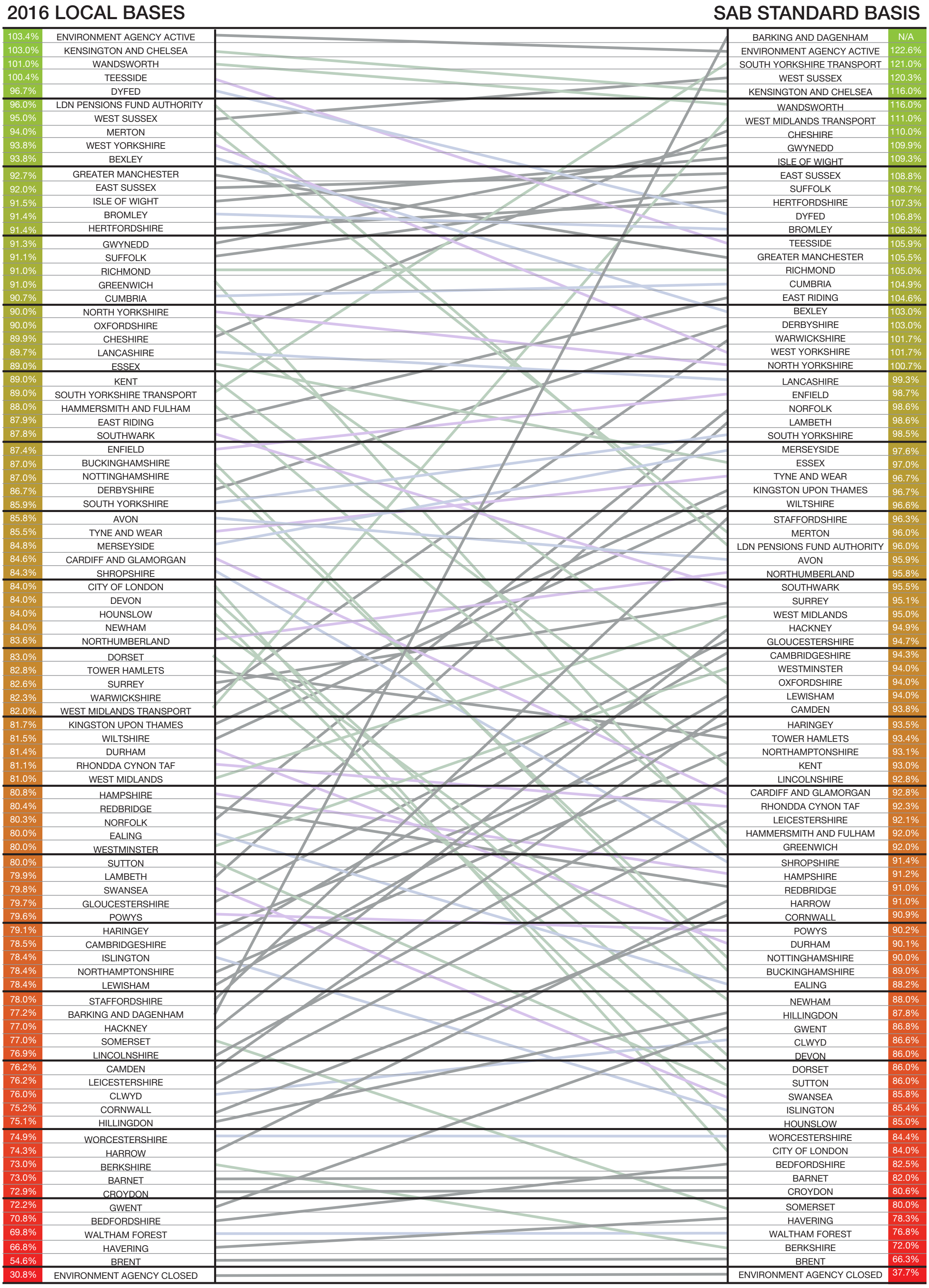
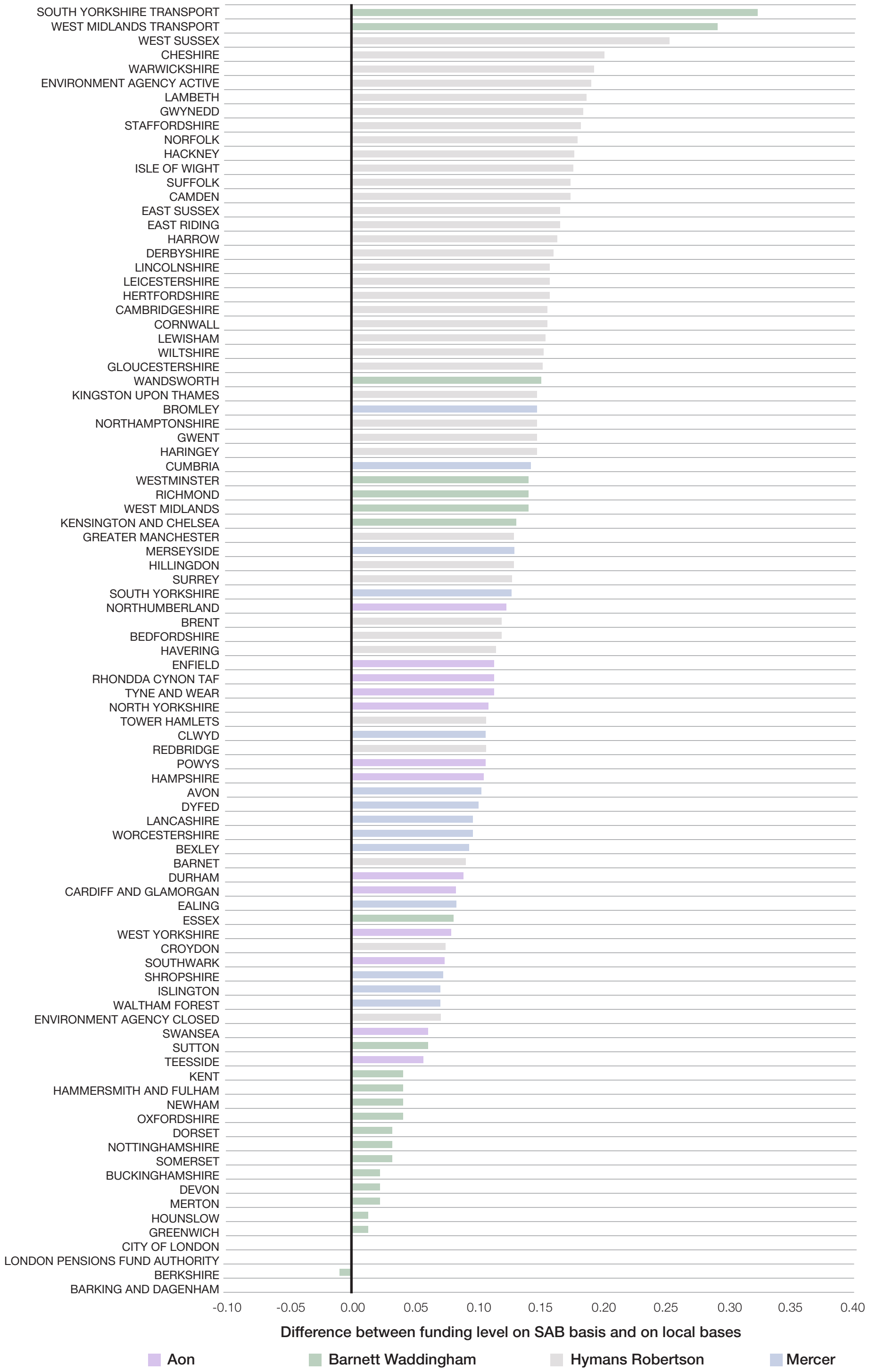


Chart B2: Difference Between Funding Level on SAB Standardised Basis and Funding Level on Local Bases



Discount Rates

B.5 Each firm of actuarial advisors applies a different method for calculating discount rates as shown in the table below[2]:

Table B2: Discount Rate Methodology

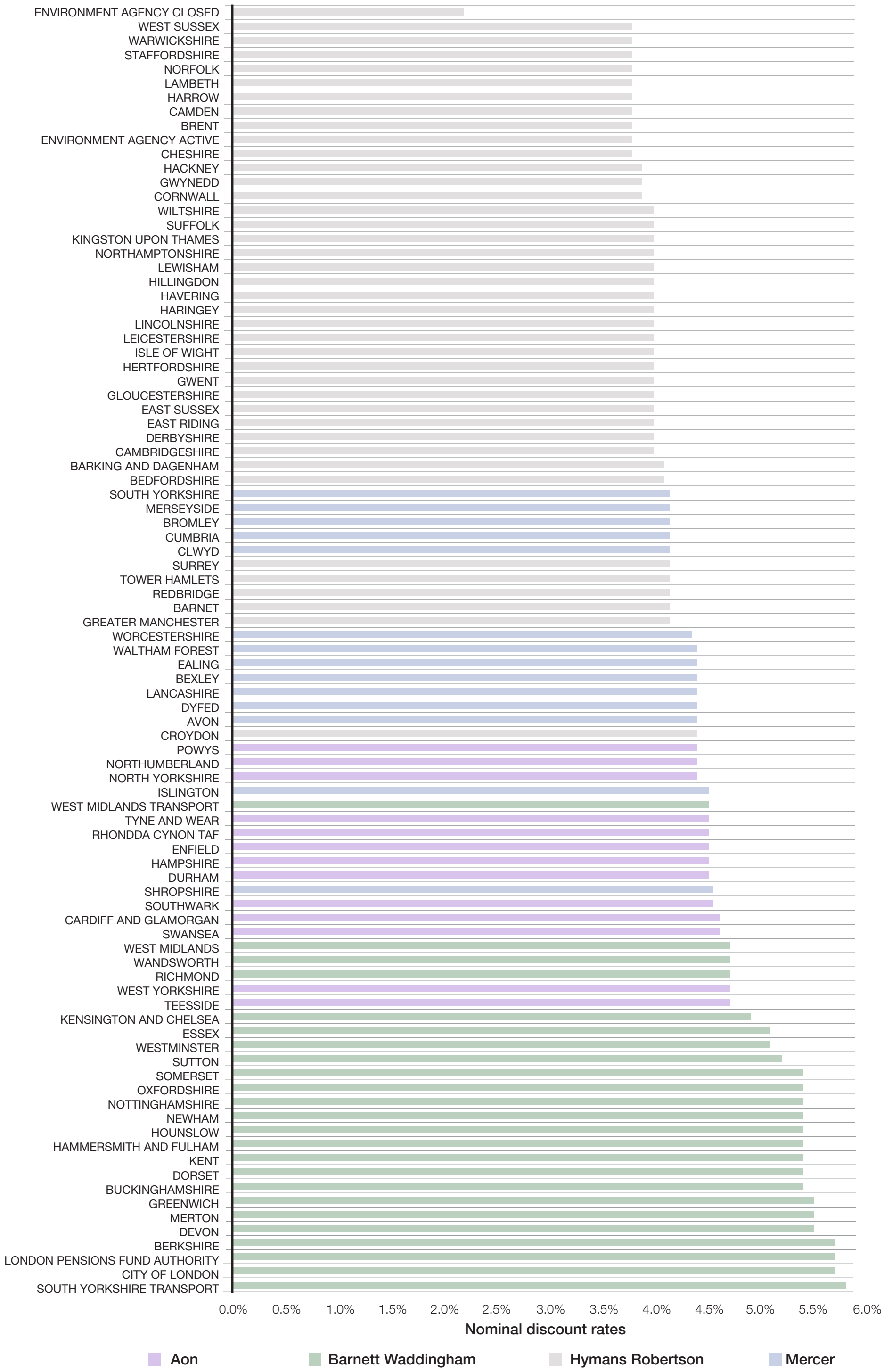
Firm of actuarial advisors	Discount rate methodology
Aon	Stochastic Method
Barnett Waddingham	Weighted average expected return on assets classes
Hymans Robertson	Gilts +
Mercer	CPI + real discount rate derived using stochastic modelling

B.6 Chart B3 shows the pre-retirement discount rate used to assess past service liability[3] applied in the actuarial valuations for each fund. The discount rates set by each fund are likely to be linked to the mix of assets held by the fund, and we would therefore expect to see differences in discount rate from fund to fund. Hymans Robertson and Mercer use different methods and/or discount rates for future contribution requirements.

[2] Note: the method of deriving discount rate is not shown in all reports, but was provided by each firm as part of GAD's data request.

[3] Note that some funds used different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

Chart B3: Pre-retirement Discount Rates

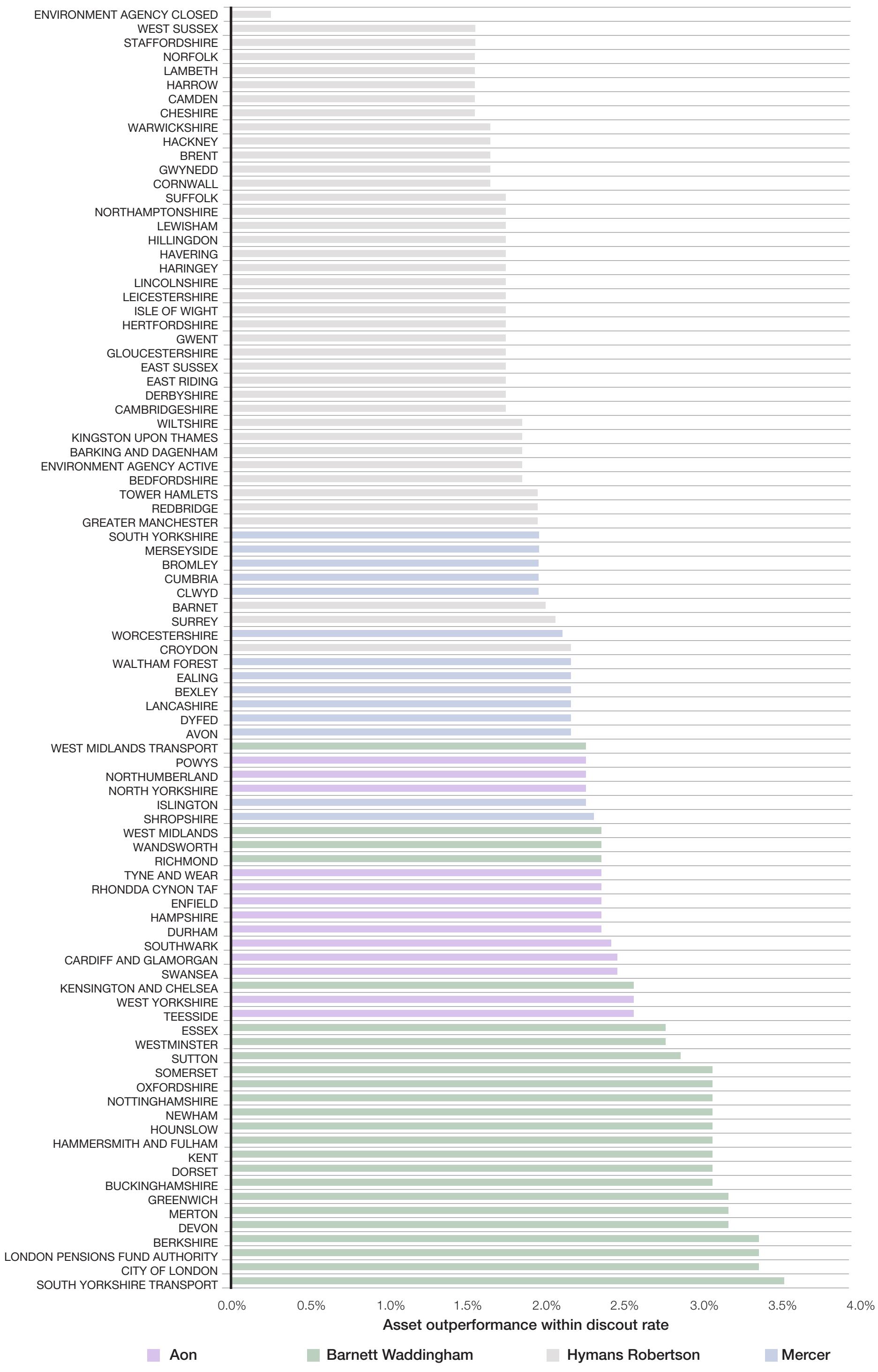


B.7 We assess implied asset outperformance as discount rate less risk free rate less RPI, where the risk free rate is taken to be the real 20 year Bank of England spot rate as at 31 March 2016 (-0.96%). Chart B4 shows the assumed asset out performance ("AOA") over and above the risk free rate, where AOA is calculated as the fund's nominal discount rate ("DR") net of:

- The RFR – the real 20 year Bank of England spot rate as at 31 March 2016
- Assumed CPI – as assumed by the fund in their 2016 actuarial valuation
- The excess of assumed RPI inflation over assumed CPI inflation ("$RPI – CPI$") – as assumed by the fund in their 2016 actuarial valuation

i.e. $AOA = DR – RFR – RPI$. (Chart B4 shows the implied rate of asset outperformance for each fund.)

Chart B4: Assumed Asset Outperformance within Discount Rate



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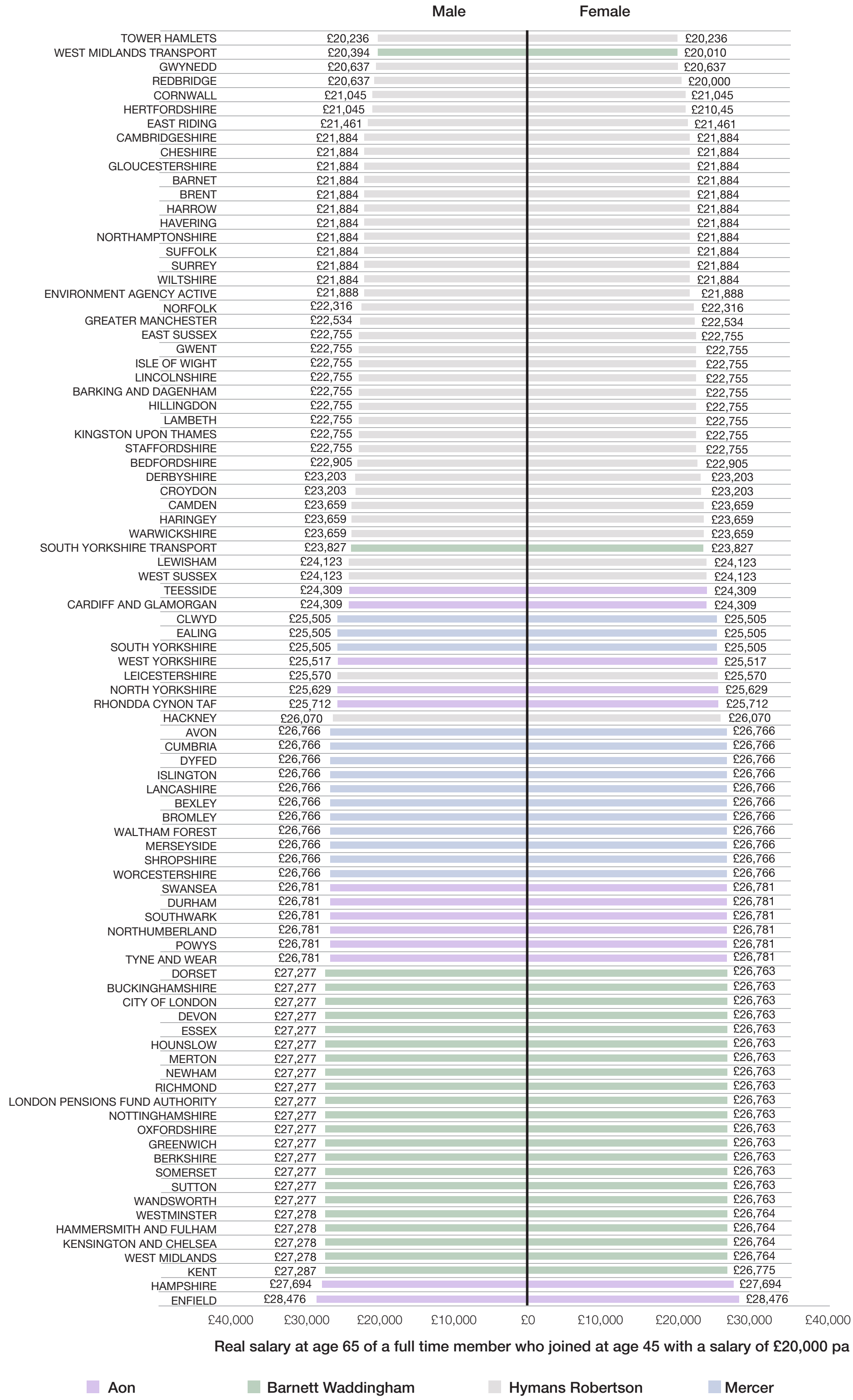
Demographic assumptions

B.8 Chart B5 shows the projected salary in present day terms at age 65 for a 45 year old currently earning £20,000 per year.

B.9 The chart indicates that assumed salary increases appear to follow a house view rather than explicitly reflecting local variations. We note that NJC pay bargaining affects all local councils.

Chart B5: Projected Real Salary at age 65 for a 45 year old currently earning £20k pa



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B.10 Commutation assumptions (the extent to which members on average exchange pension in favour of a tax free cash benefit) are set as the percentage of the maximum commutable amount that a member is assumed to take on retirement. Chart B6 shows the assumed percentages for both pre 2008 and post 2008 pensions, which may be set separately.

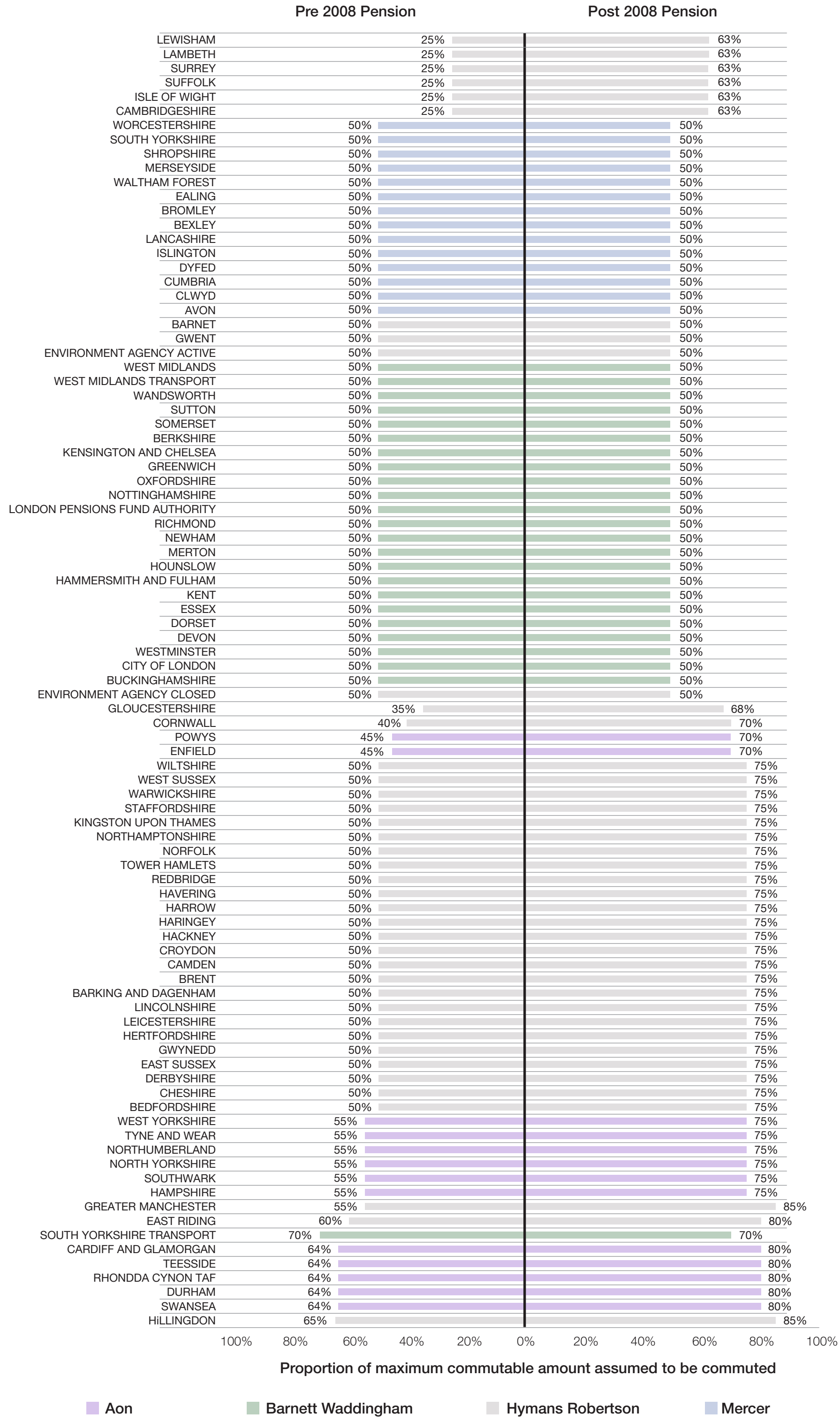
B.11 Other things being equal, it is more prudent to assume a lower rate of commutation, because the cost of providing a pension benefit is higher than the commutation factor. In addition, cash was provided as of right in the LGPS prior to 2008; whereas for benefits accrued after that date, cash was available only by commutation of pension.

B.12 The chart shows that all the funds advised by Mercer and most funds advised by Barnett Waddingham assume that members commute 50% of the maximum allowable amount. Funds advised by Aon assume that their members commute at least 70% of the maximum allowable amount for post 2008. There is more variation in the commutation assumptions made by funds advised by Hymans Robertson, but with a large cluster of funds assuming 50% for pre 2008 pensions and 75% for post 2008.

B.13 If it is the case that firms of actuarial advisors find that there is insufficient data to make assumptions on a fund by fund basis, then it would be reasonable for them to make the assumption based on scheme wide data. However, each advisor only has access to the data from the funds that it advises, and therefore can only base their assumptions on the data from those funds. Another firm of actuarial advisors has access to the data for a different collection of funds and therefore might draw a different conclusion as to what the scheme wide average commutation rate is.

B.14 The result is that each firm of actuarial advisors takes a "house view" on commutation assumptions rather than an approach clearly based on local conditions, which calls into question whether the consistency criterion of Section 13 has been met.

Chart B6: Commutation Assumptions for Pre and Post 2008 Pensions



Appendix C: Solvency

C.1 In this appendix we set out analysis we undertook in relation to whether the rate of employer contributions to the LGPS pension fund is set at an appropriate level to ensure the solvency of the pension fund. This appendix contains a description of:

- Solvency considerations
- Core Spending Power
- Mapping of solvency considerations to measures adopted
- Methodology used for solvency measures
- Table of outcomes for each fund

Potential for default

C.2 In the context of the LGPS:

- Our understanding based on confirmation from MHCLG is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities
- Therefore, for the purposes of our analysis we assume that local authority sponsors cannot default on their pension liabilities through failure
- Members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

Solvency considerations

C.3 In assessing whether the conditions for solvency are met, we will have regard to:

Risks already present:

- funding level on the SAB standard basis
- whether or not the fund continues to be open to new members. If the fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions
- the ability of tax raising authorities to meet employer contributions

Emerging risks:

- the risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)
- the proportion of scheme employers without tax raising powers or without statutory backing

C.4 We express the emerging risks in the context of Core Spending Power[4] (for English local authorities, described below) or financing data (for Welsh local authorities).

Core Spending Power

C.5 GAD's stress tests are designed to test the ability of the underlying tax raising employers to meet a shock in the fund; one that results in a sustained reduction of the funding position, requiring remedial action from those employers in the form of long term additional contributions.

[4] For some funds, employers do not include local authorities with Core Spending Power or financing data, in which case we have followed the same approach used in the dry run.

C.6 The purpose is to put this in the context of the financial resources available to those tax raising employers. In order to do that, MHCLG has pointed to an objective, well used and publicly available measure referred to as Core Spending Power. This applies for all local authorities across England and is published here[5].

C.7 Core Spending Power has the following components:

- Modified Settlement Funding Assessment
- Estimated Council Tax excluding Parish Precepts
- Potential additional Council Tax revenue from Adult Social Care flexibility
- Potential additional Council Tax revenue from £5 referendum principle for districts with lower quartile Band D Council Tax levels
- Proposed Improved Better Care Fund
- New Homes Bonus
- Rural Services Delivery Grant

C.8 GAD have referenced Core Spending Power for 2016-17 (to be consistent with the effective date of the data provided for Section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like.

C.9 Core Spending Power is not a measure of total local authority income. It does not include commercial income, sales fees and charges, or ring-fenced grants (except improved Better Care Fund). Core Spending Power includes an assumed modelled amount of locally retained business rates and as such does not include growth (or falls) in actual retained business rates. In some authorities, non-uniformed police employees participate in the LGPS, but their funding comes from Home Office. On the basis that the majority of this applies to uniformed police officers, no adjustment is made for it. Similarly DfE funding for academies is not included.

C.10 Because Core Spending Power is publicly available and objective, MHCLG have advised it is the best such measure available currently.

C.11 Core Spending Power does not apply to Welsh local authorities. For Welsh funds GAD have used “financing of gross revenue expenditure” (“financing data”), which is broadly comparable with Core Spending Power, following discussions with Welsh Government. This applies for all local authorities in Wales and is published here[6].

C.12 Financing data has the following components which GAD have included for the purpose of Section 13 analysis:

- Adjustments (including amending reports)
- Council tax reduction scheme (including RSG element)
- Discretionary non-domestic rate relief
- General government grants
- Share of re-distributed non-domestic rates
- Amount to be collected from council tax

[5] https://www.gov.uk/government/publications/core-spending-power-final-local-government-finance-settlement-2018-to-2019
[6] https://www.gov.uk/government/publications/core-spending-power-final-local-government-finance-settlement-2018-to-2019

C.13 Financing data also has the following components which we have not included for the purpose of Section 13 analysis:

- Specific grants
- Appropriations from(+) / to(-) reserves

C.14 We have referenced financing data for 2016-17 (to be consistent with the effective date of the data provided for Section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like.

C.15 Similarly to Core Spending Power, financing data excludes income from sales, fees and charges.

C.16 Similarly to Core Spending Power, We have excluded police funding from the analysis.

Solvency measures

C.17 For the 2016 exercise, we have tested the following five metrics under solvency. We developed other measures but have not used them. For example, we considered that liability shock did not add value under current circumstances beyond what was already measured under asset shock.

Table C1: 2016 Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix D
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory-backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing
Emerging risks:	
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates expressed as a percentage of Core Spending Power (or financing data) after a 15% fall in value of return-seeking assets
The impact that non-statutory employers defaulting on contributions would have on the income of sponsoring employers as a whole	**Employer default:** The change in average employer contribution rates as a percentage of Core Spending Power (or financing data) if all employers without tax raising powers or statutory backing default on their existing deficits

C.18 Emerging risk measures require assumptions. We used best estimate assumptions for this purpose, details of which can be found in Appendix G. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in this chapter.

Funds with no or low core spending

C.19 There were six funds with no or low core spending

- Environmental Agency Active Fund
- Environmental Agency Closed Fund
- West Midlands Integrated Transport Authority Pension Fund
- South Yorkshire Passenger Transport Authority Pension Fund
- London Pension Fund Authority Pension Fund
- City of London Corporation Pension Fund

C.20 For each of these funds, we have reverted to the dry run methodology for asset and liability shock, which expressed the resulting additional contributions to meet the emerging deficit as a percentage of pensionable pay.

Solvency measures – methodology

C.21 This Appendix details the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

SAB funding level: *A fund's funding level using the SAB standard basis*

C.22 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix G.

C.23 A fund in deficit will need to pay additional contributions in order to meet the liabilities that have already been accrued.

C.24 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the ten funds ranked 81 to 90 out of 91 (i.e. not including Environment Agency Closed Fund) are assigned an amber colour code. All other funds are assigned a green colour code.

Open fund: *Whether the fund is open to new members*

C.25 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time to maturity of the scheme means that additional contributions must be spread over a shorter timeframe, and could be more volatile as a result.

C.26 This measure is a *'Yes'* when a fund is still open to new members and a *'No'* otherwise. A *'Yes'* results in a green colour code, while a *'No'* results in a red colour code.

Non-statutory members: *The proportion of members within the fund who are employed by an employer without tax raising powers or statutory backing*

C.27 We have considered tax payer-backed employers of stronger covenant value than other employers. It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.28 Data for this measure has been taken from the publicly available *'Local government pension scheme funds local authority data: 2016 to 2017'* published by DCLG[7]. The data contains the number of employees within each fund by employer group, where:

- Group 1 refers to local authorities and connected bodies
- Group 2 refers to centrally funded public sector bodies
- Group 3 refers to other public sector bodies and
- Group 4 refers to private sector, voluntary sector and other bodies

C.29 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those ***with*** tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those ***without*** tax raising powers or statutory backing.

C.30 The measure therefore gives the proportion of members within the fund that are/were employed by group 1 and 2 employers as a proportion of all members within the fund.

C.31 Under this measure a fund has been allocated a red colour code if its proportion of members who are employed by an employer without tax raising powers or statutory backing is greater than 50%.

C.32 A fund has been allocated an amber colour code if its proportion of members who are employed by an employer without tax raising powers or statutory backing is between 25% and 50%, and a green colour code in all other cases.

***Asset shock:** The change in average employer contribution rates as a percentage of Core Spending Power or financing data after a 15% fall in value of return-seeking assets*

C.33 This measure shows the effect on total employer contribution rates of a one-off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets expressed as a percentage of Core Spending Power or financing data. Defensive assets are assumed to be unaffected.

C.34 For the purposes of this measure liabilities have restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised best estimate basis, the surplus is assumed to be paid back to the employer over a period of 20 years. However, where the fund is in surplus after the shock, we have not applied a flag.

C.35 Return-seeking asset classes are assumed to be:

- Overseas Equities
- UK Equities
- Other Investments
- Property
- Other return seeking assets

[7] https://www.gov.uk/government/collections/local-government-pension-scheme

Defensive asset classes are assumed to be:

- Cash
- Gilts
- Corporate Bonds
- Other defensive assets

C.36 We calculated the emerging deficit from the shock following a 15% fall in return seeking assets applying to tax raising employers (local authorities and connected bodies & other public sector bodies):

New Deficit = (Pre stress asset value – post stress asset value) x *% Tax raising employers*

C.37 We spread this over 20 years of annual payments and express as a percentage of Core Spending Power (or financing data for Welsh funds)

$$\frac{New\ Defecit}{\bar{a}_{20} \times Core\ Spending\ Power}$$

C.38 Where:

- new deficit is calculated on the standardised best estimate basis as at 31 March 2016
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis

C.39 A fund is allocated an amber colour code if its result is above 3% and a green colour code otherwise.

C.40 For those funds with no/low core spending, the change of contribution rate was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 5%. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Funds in surplus after shock

C.41 The asset shock resulted in a reduction to the funding level of the scheme on GAD's best estimate basis. However if the fund was in surplus post shock (the funding level was in excess of 100% after the shock) the fund would not receive a flag.

C.42 However, the risk remains that such an event could bring forward the need to increase contributions for the following funds:

- East Riding Pension Fund
- Greater Manchester Pension Fund
- Royal Borough of Kensington and Chelsea Pension Fund
- Teesside Pension Fund
- Wandsworth Council Pension Fund

Equity Protection Strategy

C.43 South Yorkshire Pension Fund has recently added a protection strategy to attempt to limit downside risk from its equity portfolio. The intention of this strategy is to protect £2.6bn of the equity portion of the fund against falls in total return of between 5% and 30%, by giving up total returns above 14.25% over a two year period.

C.44 The strategy has been implemented through buying and selling options and giving up sufficient upside to reduce the net cost to zero. On implementation there was actually a net gain to the scheme of £73k. The structure has been implemented in four parts based on four indices: S&P 500 (c£1bn), FTSE 100 (c£0.9bn), Euro Stoxx 50 (c£0.6bn), Nikkei 225 (c£0.2bn).

C.45 We have not adjusted our asset shock outcomes to reflect this strategy. Although we consider such a strategy may benefit funds wishing to protect their downside risk, and which may mean the premise for our asset shock could change, we would need to understand this in more detail, and that may be appropriate if the strategy is maintained or extended through to the next valuation.

Employer default: *The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits*

C.46 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:

- there is a guarantee of LGPS pension liabilities by a public body;
- that public body is incapable of becoming insolvent; and
- the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

C.47 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.48 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised best estimate basis, the surplus is assumed to be paid back to the employer over a period of 20 years. However, where the fund is in surplus after the shock, we have not applied a flag.

C.49 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers, the contribution rate for each remaining employer will increase.

C.50 If an employer defaults when the fund is in surplus, the risk is mitigated, so we have not considered funds in surplus on the standardised best estimate basis for this measure.

C.51 We calculated the amount of deficit from the default of other public sector bodies & private sector, voluntary sector and other bodies:

$$\textit{Share of Defecit} = \textit{Defecit} \times \textit{\% non-tax raising employers}$$

C.52 We spread this over 20 years of annual payments and express as a percentage of Core Spending Power (or financing data for Welsh funds)

$$\frac{\textit{Share of Defecit}}{\bar{a}_{20} \times \textit{Core Spending Power}}$$

C.53 Where:

- Share of deficit is calculated on the standardised best estimate basis as at 31 March 2016
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.

- e is the general earnings inflation assumption on the standardised best estimate basis

C.54 A fund is allocated an amber colour code if its result is greater than 3% and a green colour code otherwise.

Covenant review comments

C.55 We are aware that a significant amount of work goes on by fund managers in relation to covenant of employers.

C.56 Specific covenant reviews are conducted each year in respect of the employers in the WMITA fund.

C.57 We have discussed this covenant work with a range of fund managers, as well as the Pensions Regulator. It helps protect each fund against the risk of the employer defaulting on its obligations to the fund.

C.58 We include a measure for high proportion of non-tax backed employees as a proxy for the risk that their employers do default. We also do a stress test on this item to see if it has a material impact on the finances of the local authorities that may retain any residual deficit in relation to those employers. By doing these tests, it is not our intention to comment on the covenant work that goes on, rather to highlight that there remains some risk.

C.59 This risk exists because those employers have a different potential impact on the funds, and the tax raising employers retain the risk should an employer default.

Solvency measures – by fund

Table C2: Solvency measures by fund

	2016 solvency measures				
Pension fund	**Open fund**	**SAB funding level**	**Non-Statutory employees**	**Asset shock**	**Employer default**
Avon Pension Fund	Yes	95.9%	5.5%	2.0%	Surplus
Bedfordshire Pension Fund	Yes	82.5%	4.2%	1.8%	0.1%
Buckinghamshire County Council Pension Fund	Yes	89.0%	4.8%	1.9%	0.0%
Cambridgeshire Pension Fund	Yes	94.3%	3.8%	2.2%	Surplus
Cardiff and Vale of Glamorgan Pension Fund	Yes	92.8%	6.7%	1.5%	Surplus
Cheshire Pension Fund	Yes	110.0%	7.6%	Surplus	Surplus
City and County of Swansea Pension Fund	Yes	85.8%	10.2%	1.4%	0.1%
City of London Corporation Pension Fund *	Yes	84.0%	10.6%	3.6%*	1.1%
City of Westminster Pension Fund	Yes	94.0%	0.0%	2.9%	Surplus
Clwyd Pension Fund	Yes	86.6%	2.4%	0.9%	0.0%
Cornwall Pension Fund	Yes	90.9%	6.3%	1.1%	Surplus
Cumbria Local Government Pension Scheme	Yes	104.9%	7.2%	Surplus	Surplus
Derbyshire Pension Fund	Yes	103.0%	4.5%	Surplus	Surplus
Devon County Council Pension Fund	Yes	86.0%	24.9%	2.5%	0.3%
Dorset County Pension Fund	Yes	86.0%	4.9%	1.9%	0.1%
Durham County Council Pension Fund	Yes	90.1%	3.8%	2.1%	0.0%
Dyfed Pension Fund	Yes	106.8%	3.8%	Surplus	Surplus
East Riding Pension Fund	Yes	104.6%	3.0%	Surplus	Surplus
East Sussex Pension Fund	Yes	108.8%	1.7%	Surplus	Surplus
Essex Pension Fund	Yes	97.0%	9.6%	2.1%	Surplus
Gloucestershire County Council Pension Fund	Yes	94.7%	9.6%	2.0%	Surplus
Greater Gwent (Torfaen) Pension Fund	Yes	86.8%	7.3%	1.5%	0.0%
Greater Manchester Pension Fund	Yes	105.5%	22.8%	Surplus	Surplus
Gwynedd Pension Fund	Yes	109.9%	3.4%	Surplus	Surplus
Hampshire County Council Pension Fund	Yes	91.2%	3.5%	1.9%	Surplus
Hertfordshire County Council Pension Fund	Yes	107.3%	5.8%	Surplus	Surplus
Isle of Wight Council Pension Fund	Yes	109.3%	2.7%	Surplus	Surplus
Islington Council Pension Fund	Yes	85.4%	5.9%	2.6%	0.1%
Kent County Council Pension Fund	Yes	93.0%	8.7%	2.1%	Surplus
Lancashire County Pension Fund	Yes	99.3%	7.9%	2.7%	Surplus
Leicestershire County Council Pension Fund	Yes	92.1%	5.0%	2.1%	Surplus

Pension fund	2016 solvency measures				
	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Lincolnshire Pension Fund	Yes	92.8%	2.6%	2.1%	Surplus
London Borough of Barking and Dagenham Pension Fund	Yes	90.6%	2.9%	2.3%	0.0%
London Borough of Barnet Pension Fund	Yes	82.0%	11.8%	1.7%	0.2%
London Borough of Bexley Pension Fund	Yes	103.0%	5.7%	1.9%	Surplus
London Borough of Brent Pension Fund	Yes	66.3%	13.4%	1.2%	0.6%
London Borough of Bromley Pension Fund	Yes	106.3%	2.4%	Surplus	Surplus
London Borough of Camden Pension Fund	Yes	93.8%	8.7%	2.6%	Surplus
London Borough of Croydon Pension Fund	Yes	80.6%	3.6%	1.3%	0.1%
London Borough of Ealing Pension Fund	Yes	88.2%	11.0%	1.8%	0.1%
London Borough of Enfield Pension Fund	Yes	98.7%	1.5%	1.4%	Surplus
London Borough of Hackney Pension Fund	Yes	94.9%	0.0%	2.2%	Surplus
London Borough of Hammersmith and Fulham Pension Fund	Yes	92.0%	13.2%	2.4%	Surplus
London Borough of Haringey Pension Fund	Yes	93.5%	0.0%	2.5%	Surplus
London Borough of Harrow Pension Fund	Yes	91.0%	1.7%	1.9%	0.0%
London Borough of Havering Pension Fund	Yes	78.3%	1.1%	1.3%	0.0%
London Borough of Hillingdon Pension Fund	Yes	87.8%	1.2%	1.6%	0.0%
London Borough of Hounslow Pension Fund	Yes	85.0%	12.6%	1.8%	0.2%
London Borough of Lambeth Pension Fund	Yes	98.6%	0.0%	1.9%	Surplus
London Borough of Lewisham Pension Fund	Yes	94.0%	5.8%	2.1%	Surplus
London Borough of Merton Pension Fund	Yes	96.0%	2.4%	1.7%	Surplus
London Borough of Newham Pension Fund	Yes	88.0%	1.3%	2.4%	0.0%
London Borough of Redbridge Pension Fund	Yes	91.0%	10.5%	1.2%	0.0%
London Borough of Richmond Upon Thames Pension Fund	Yes	105.0%	3.8%	Surplus	Surplus
London Borough of Southwark Pension Fund	Yes	95.5%	3.2%	2.3%	Surplus
London Borough of Tower Hamlets Pension Fund	Yes	93.4%	0.0%	2.3%	Surplus
London Borough of Waltham Forest Pension Fund	Yes	76.8%	3.1%	1.3%	0.1%
Merseyside Pension Fund	Yes	97.6%	12.7%	3.0%[8]	Surplus
Norfolk Pension Fund	Yes	98.6%	8.7%	2.1%	Surplus
North Yorkshire Pension Fund	Yes	100.7%	2.0%	2.6%	Surplus
Northamptonshire Pension Fund	Yes	93.1%	1.6%	2.0%	Surplus
Northumberland County Council Pension Fund	Yes	95.8%	4.5%	2.4%	Surplus
Nottinghamshire County Council Pension Fund	Yes	90.0%	6.2%	2.8%	0.0%
Oxfordshire County Council Pension Fund	Yes	94.0%	4.4%	2.5%	Surplus

[8] Unrounded figure is less than 3%

Pension fund	2016 solvency measures				
	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Powys County Council Pension Fund	Yes	90.2%	5.1%	1.2%	0.0%
Rhondda Cynon Taf County Borough Council Pension Fund	Yes	92.3%	5.9%	2.0%	Surplus
Royal Borough of Greenwich Pension Fund	Yes	92.0%	6.8%	1.7%	Surplus
Royal Borough of Kensington and Chelsea Pension Fund	Yes	116.0%	7.1%	Surplus	Surplus
Royal Borough of Kingston Upon Thames Pension Fund	Yes	96.7%	13%	2.5%	Surplus
Royal County of Berkshire Pension Fund	Yes	72.0%	5.5%	1.5%	0.2%
Shropshire County Pension Fund	Yes	91.4%	9.8%	1.8%	Surplus
Somerset County Council Pension Fund	Yes	80.0%	21.9%	2.7%	0.7%
South Yorkshire Pension Fund	Yes	98.5%	9.6%	3.0%	Surplus
Staffordshire Pension Fund	Yes	96.3%	6.6%	2.9%	Surplus
Suffolk Pension Fund	Yes	108.7%	24.5%	Surplus	Surplus
Surrey Pension Fund	Yes	95.1%	5.1%	2.0%	Surplus
Sutton Pension Fund	Yes	86.0%	4.4%	1.3%	0.0%
Teesside Pension Fund	Yes	105.9%	9.7%	Surplus	Surplus
Tyne and Wear Pension Fund	Yes	96.7%	11.8%	3.5%	Surplus
Wandsworth Council Pension Fund	Yes	116.0%	8.9%	Surplus	Surplus
Warwickshire Pension Fund	Yes	101.7%	5.9%	2.2%	Surplus
West Midlands Pension Fund	Yes	95.0%	4.1%	2.7%	Surplus
West Sussex County Council Pension Fund	Yes	120.3%	5.7%	Surplus	Surplus
West Yorkshire Pension Fund	Yes	101.7%	13.4%	3.7%	Surplus
Wiltshire Pension Fund	Yes	96.6%	21.8%	2.6%	Surplus
Worcestershire County Council Pension Fund	Yes	84.4%	9.0%	2.2%	0.1%
Environment Agency Active Fund*	Yes	122.6%	N/A	Surplus*	N/A
Environment Agency Closed Fund	No	37.7%	N/A	N/A	N/A
South Yorkshire Passenger Transport Pension Fund*	No	121.0%	100.0%	Surplus*	N/A
West Midlands Integrated Transport Authority Pension Fund*	No	111.0%	100.0%	Surplus*	N/A
London Pensions Fund Authority Pension Fund*	Yes	96.0%	19.7%	7.4%*	N/A

Notes:

1. Funding levels are on the SAB standard basis.
2. The liability value and salary roll figures in the maturity indicator are as at 31 March 2016. The liability value was calculated on the standardised best estimate basis.
3. For funds marked * against asset shock we have assessed the shock as a percentage of pensionable pay (as we did in the dry run)

Appendix D: Long term cost efficiency

D.1 We developed a series of relative and absolute considerations to help assess whether the contributions met the aims of section 13 under long term cost efficiency. This appendix contains a description of:

- Mapping of long term cost efficiency considerations to measures adopted
- Methodology used for long term cost efficiency measures
- Table of outcomes for each fund

Table D1: Long Term Cost Efficiency Considerations and Measures

Consideration	Measure Used
Relative considerations:	
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised best estimate basis (SAB key indicator 3)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised best estimate basis (SAB key indicator 4(i))
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised best estimate basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB key indicator 4(i)), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB key indicator 4(ii))
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:** Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience.

D.2 For the 2016 report, we have removed some measures which represented the same information in a slightly different way to make the report more succinct.

D.3 Three of these measures were selected from the KPIs defined by the SAB[9]. The selected SAB measures have been augmented with two additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

D.4 The analyses and calculations carried out under these long term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local firms of actuarial advisors.

D.5 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

Long term cost efficiency measures – methodology

D.6 We detail the methodology behind the measures used to assess a fund's long term cost efficiency position below. Some of the measures listed were calculated using a best estimate set of assumptions. For more information on this best estimate basis please see Appendix G.

***Deficit period:** The implied deficit recovery period calculated on a standardised best estimate basis*

D.7 This measure is based on SAB key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised best estimate basis.

D.8 The implied deficit recovery period on the standardised best estimate basis was found by solving the following equation for x:

$$\bar{a}_x = \frac{\textit{Deficit on standardised BE basis}}{\textit{Annual deficit recovery payment on standardised BE basis}}$$

D.9 Where:

- x is the implied deficit recovery period.
- $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The deficit on the standardised best estimate basis is as at 31 March 2016.
- The annual deficit recovery payment on the standardised best estimate basis is calculated as the difference between the average employer contribution rate for the years 2017/18 – 2019/20, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised best estimate basis for the years 2017/18 – 2019/20 (which is assumed to be equal to the future cost of accrual of that particular fund).

[9] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

D.10 Funds that were in surplus or where the implied deficit recovery period was less than 10 years were flagged as green. Those with recovery periods greater than or equal to 10 years were flagged as amber. If there were any funds that were paying contributions at a level that would result in an increase in deficit, they would have been flagged as red.

Required return: *The required investment return rates to achieve full funding in 20 years' time on the standardised best estimate basis*

D.11 This measure is based on SAB key indicator 4(i). However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised best estimate basis. No amber or red flags were raised under this measure.

D.12 The following assumptions were made for the purposes of this calculations:

- Time 0 is 31 March 2016.
- Time 20 is 31 March 2036.
- A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local firms of actuarial advisors.
- A_{20} is the value of the fund's assets at time 20.
- L_0 is the value of the fund's liabilities at time 0, and was obtained from the data provided by the local firms of actuarial advisors.
- L_{20} is the value of the fund's liabilities at time 20.
- C_0 is one year's employer contributions paid from time 0.
- $C_{0\text{-}20}$ is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- B_0 is the value of one year's benefits paid (excluding transfers) from time 0.
- $B_{0\text{-}20}$ is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- SCR_0 is the standard contribution rate payable from time 0 to time 1 and was calculated by restating the standard contribution rates on the local fund bases using the best estimate basis.
- $SCR_{0\text{-}20}$ is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local firms of actuarial advisors.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings assumption on the standardised best estimate basis.
- x is the required investment return that is to be calculated.

D.13 The membership profile is assumed to be constant.

D.14 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \times (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $C_{0\text{-}20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0\text{-}20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0\text{-}20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

D.15 Where the required investment return was higher than the nominal discount rate on the standardised best estimate basis (i.e. i where i = 5.59%) funds would be classified as amber, whereas funds were classified as green if the required return was less than i.

Repayment shortfall: *The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised best estimate basis*

D.16 This measure extends the deficit period measure. We calculate the required annual deficit recovery contribution rate on a standardised best estimate basis to pay off the deficit in 20 years' time, and then work out the difference between the actual deficit recovery contribution rate and this rate.

D.17 The 20 year deficit recovery period is based on the SAB key indicator 4(i).

D.18 The required annual deficit recovery contribution rate to be paid on a standardised best estimate basis is equal to:

$$\frac{\textit{Defecit on standardised best estimate basis}}{\bar{a}_{20} \times \textit{Salary Roll}}$$

Where:

- The deficit on the standardised best estimate basis is as at 31 March 2016.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The salary roll is as at 31 March 2016 and has not been adjusted.

D.19 The difference in deficit recovery contribution rates is then defined as:

$$(\textit{Avg ER cont rate paid} - \textit{ER SCR on BE basis}) - \frac{\textit{Defecit on BE basis}}{\bar{a}_{20} \times \textit{Salary Roll}}$$

Where:

- The average employer contribution rate is for the years 2017/18 – 2019/20, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed ((i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised best estimate basis is for the years 2017/18 – 2019/20. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

D.20 The data required for each of the funds to carry out the above calculation was provided by their respective firms of actuarial advisors.

D.21 Where appropriate data has been restated on the standardised best estimate basis.

D.22 Funds where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds would be flagged as amber. If the difference in deficit recovery contribution rates is less than -3%, then the fund would be flagged as red. No amber or red flags were raised under this measure.

Return scope: *The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained*

D.23 This measure is based on SAB key indicator 4(ii).

D.24 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2016.

D.25 The asset data used in this calculation was provided by each fund's respective firm of actuarial advisors.

D.26 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% would be flagged as amber, whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

***Deficit reconciliation:** Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience*

D.27 This measure is used to monitor the change in the deficit recovery end point set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

D.28 This measure considers the following:

- Whether contributions have decreased since the previous valuations (reducing the burden on current tax payers)
- Whether the deficit recovery end point has moved further into the future, compared with the previous valuation (increasing the burden on future tax payers)

Funds where both of the above have occurred are flagged amber; otherwise funds are flagged green.

Long term cost efficiency measures – by fund

Table D2: Long term cost efficiency measures by fund

		2016 long term cost efficiency measures					
		Relative considerations			Absolute considerations		
Pension fund	**Maturity (rank)**	**Deficit period**	**Required return**	**Repayment shortfall**	**Return scope**	**Deficit Reconciliation**	
Avon Pension Fund	6 (54)	Surplus	3%	11%	2.2%	Green	
Bedfordshire Pension Fund	5.5 (82)	4	3%	11%	2.3%	Green	
Buckinghamshire County Council Pension Fund	5.3 (88)	0	3%	9%	2.1%	Green	
Cambridgeshire Pension Fund	5.8 (71)	Surplus	3%	11%	2.8%	Green	
Cardiff and Vale of Glamorgan Pension Fund	6.1 (48)	Surplus	3%	13%	3.1%	Green	
Cheshire Pension Fund	6.6 (32)	Surplus	1%	14%	3.5%	Green	
City and County of Swansea Pension Fund	5.6 (75)	3	3%	10%	2.4%	Green	
City of London Corporation Pension Fund	7.1 (20)	6	4%	7%	1.8%	Green	
City of Westminster Pension Fund	8.8 (5)	Surplus	1%	26%	4.9%	Green	
Clwyd Pension Fund	6.5 (35)	2	2%	15%	2.6%	Green	
Cornwall Pension Fund	5.9 (60)	Surplus	3%	14%	2.0%	Green	
Cumbria Local Government Pension Scheme	7 (21)	Surplus	3%	10%	2.2%	Green	
Derbyshire Pension Fund	5.6 (76)	Surplus	3%	8%	2.4%	Green	
Devon County Council Pension Fund	6.3 (42)	4	4%	7%	1.7%	Green	
Dorset County Pension Fund	5.7 (72)	4	4%	7%	1.4%	Green	
Durham County Council Pension Fund	6.8 (23)	0	3%	13%	1.5%	Green	
Dyfed Pension Fund	5.9 (56)	Surplus	3%	5%	2.3%	Green	
East Riding Pension Fund	5.7 (73)	Surplus	2%	13%	3.7%	Green	
East Sussex Pension Fund	6 (52)	Surplus	2%	10%	3.6%	Green	
Environment Agency Active Fund	5.9 (62)	Surplus	3%	7%	3.0%	Green	
Environment Agency Closed Fund	0 (N/A)	N/A	N/A	N/A	N/A	Green	
Essex Pension Fund	5.6 (80)	Surplus	3%	10%	3.1%	Green	
Gloucestershire County Council Pension Fund	5.9 (58)	Surplus	1%	19%	4.3%	Green	
Greater Gwent (Torfaen) Pension Fund	6 (53)	3	4%	8%	1.9%	Green	
Greater Manchester Pension Fund	6.9 (22)	Surplus	3%	9%	3.0%	Green	
Gwynedd Pension Fund	5.4 (86)	Surplus	2%	10%	3.4%	Green	
Hampshire County Council Pension Fund	5.5 (84)	Surplus	3%	12%	2.2%	Green	
Hertfordshire County Council Pension Fund	5.8 (69)	Surplus	2%	12%	3.3%	Green	
Isle of Wight Council Pension Fund	7.2 (17)	Surplus	2%	12%	3.7%	Green	
Islington Council Pension Fund	7.3 (16)	5	4%	7%	1.1%	Green	

Pension fund	Maturity (rank)	2016 long term cost efficiency measures				
		Relative considerations			Absolute considerations	
		Deficit period	Required return	Repayment shortfall	Return scope	Deficit Reconciliation
Kent County Council Pension Fund	5.8 (70)	Surplus	3%	10%	2.6%	Green
Lancashire County Pension Fund	6.4 (37)	Surplus	3%	9%	2.8%	Green
Leicestershire County Council Pension Fund	5.4 (85)	Surplus	2%	13%	3.0%	Green
Lincolnshire Pension Fund	5.8 (66)	Surplus	3%	12%	3.0%	Green
London Borough of Barking and Dagenham Pension Fund	5.6 (79)	0	2%	14%	3.3%	Green
London Borough of Barnet Pension Fund	5.9 (61)	4	3%	11%	2.4%	Green
London Borough of Bexley Pension Fund	7.2 (18)	Surplus	3%	8%	3.1%	Green
London Borough of Brent Pension Fund	7.3 (15)	10	4%	10%	1.8%	Green
London Borough of Bromley Pension Fund	6.6 (33)	Surplus	2%	11%	3.4%	Green
London Borough of Camden Pension Fund	8.1 (7)	Surplus	2%	21%	3.9%	Green
London Borough of Croydon Pension Fund	6.1 (51)	6	4%	8%	2.1%	Green
London Borough of Ealing Pension Fund	6.8 (24)	2	3%	12%	2.3%	Green
London Borough of Enfield Pension Fund	5.8 (67)	Surplus	2%	12%	3.0%	Green
London Borough of Hackney Pension Fund	6.1 (50)	Surplus	0%	23%	5.0%	Green
London Borough of Hammersmith and Fulham Pension Fund	9.1 (4)	Surplus	4%	13%	2.0%	Green
London Borough of Haringey Pension Fund	7.4 (12)	Surplus	3%	11%	2.0%	Green
London Borough of Harrow Pension Fund	6.5 (34)	0	3%	11%	2.4%	Green
London Borough of Havering Pension Fund	6.3 (43)	6	3%	9%	2.1%	Green
London Borough of Hillingdon Pension Fund	5.8 (65)	2	3%	10%	2.1%	Green
London Borough of Hounslow Pension Fund	6.2 (44)	4	4%	8%	1.5%	Green
London Borough of Lambeth Pension Fund	8.5 (6)	Surplus	2%	18%	3.5%	Amber
London Borough of Lewisham Pension Fund	7.5 (9)	Surplus	3%	13%	2.6%	Green
London Borough of Merton Pension Fund	6.1 (49)	Surplus	4%	7%	1.6%	Amber
London Borough of Newham Pension Fund	6.4 (39)	2	4%	8%	1.6%	Amber
London Borough of Redbridge Pension Fund	6.3 (41)	0	3%	12%	1.3%	Green
London Borough of Richmond Upon Thames Pension Fund	6.7 (25)	Surplus	3%	11%	2.2%	Green
London Borough of Southwark Pension Fund	6.7 (28)	Surplus	3%	11%	2.4%	Green
London Borough of Tower Hamlets Pension Fund	7.2 (19)	Surplus	2%	20%	3.8%	Green
London Borough of Waltham Forest	7.5 (11)	9	4%	8%	1.8%	Green
London Pensions Fund Authority Pension Fund	9.2 (3)	Surplus	3%	10%	2.4%	Green
Merseyside Pension Fund	7.7 (8)	Surplus	3%	13%	2.8%	Green

Pension fund	Maturity (rank)	2016 long term cost efficiency measures					
		Relative considerations			Absolute considerations		
		Deficit period	Required return	Repayment shortfall	Return scope	Deficit Reconciliation	
Norfolk Pension Fund	6.7 (29)	Surplus	2%	14%	3.1%	Green	
North Yorkshire Pension Fund	5.4 (87)	Surplus	3%	10%	2.5%	Green	
Northamptonshire Pension Fund	6.2 (46)	Surplus	3%	13%	2.7%	Green	
Northumberland County Council Pension Fund	7.5 (10)	Surplus	2%	15%	3.2%	Green	
Nottinghamshire County Council Pension Fund	5.6 (74)	1	4%	7%	1.6%	Green	
Oxfordshire County Council Pension Fund	5.5 (83)	Surplus	4%	8%	2.3%	Green	
Powys County Council Pension Fund	6.1 (47)	0	3%	12%	2.5%	Green	
Rhondda Cynon Taf County Borough Council Pension Fund	5.8 (63)	Surplus	3%	13%	2.9%	Green	
Royal Borough of Greenwich Pension Fund	5.6 (78)	Surplus	4%	7%	0.8%	Green	
Royal Borough of Kensington and Chelsea Pension Fund	7.4 (13)	Surplus	3%	6%	3.5%	Green	
Royal Borough of Kingston Upon Thames Pension Fund	5.2 (90)	Surplus	2%	13%	3.5%	Amber	
Royal County of Berkshire Pension Fund	5.3 (89)	13	5%	3%	1.2%	Green	
Shropshire County Pension Fund	6.6 (31)	Surplus	3%	10%	1.9%	Green	
Somerset County Council Pension Fund	5.6 (77)	6	4%	8%	2.0%	Green	
South Yorkshire Passenger Transport Pension Fund	32.7 (1)	Surplus	N/A	77%	N/A	Green	
South Yorkshire Pension Fund	6.6 (30)	Surplus	3%	11%	2.6%	Green	
Staffordshire Pension Fund	6.4 (40)	Surplus	3%	13%	3.1%	Green	
Suffolk Pension Fund	5.9 (59)	Surplus	1%	14%	4.2%	Green	
Surrey Pension Fund	5.5 (81)	Surplus	3%	12%	3.0%	Green	
Sutton Pension Fund	6.4 (36)	2	3%	12%	2.0%	Green	
Teesside Pension Fund	6.7 (27)	Surplus	4%	4%	2.4%	Green	
Tyne and Wear Pension Fund	6.4 (38)	Surplus	2%	14%	3.4%	Green	
Wandsworth Council Pension Fund	7.4 (14)	Surplus	2%	6%	3.9%	Green	
Warwickshire Pension Fund	5.8 (64)	Surplus	3%	10%	2.8%	Green	
West Midlands Integrated Transport Authority Pension Fund	30.5 (2)	Surplus	N/A	64%	N/A	Green	
West Midlands Pension Fund	6.7 (26)	Surplus	2%	16%	3.5%	Green	
West Sussex County Council Pension Fund	5.9 (57)	Surplus	2%	12%	4.2%	Green	
West Yorkshire Pension Fund	6 (55)	Surplus	4%	6%	2.1%	Green	
Wiltshire Pension Fund	5.8 (68)	Surplus	2%	13%	3.3%	Green	
Worcestershire County Council Pension Fund	6.2 (45)	3	3%	12%	3.0%	Green	

Notes:

1. The liability value and salary roll figures in the maturity indicator are as at 31 March 2016. The liability value was calculated on the standardised best estimate basis.
2. The 'Required Return' and 'Return Scope' measures were not calculated for South Yorkshire PTA and West Midlands ITA as these are closed funds. They were also not calculated for the Environment Agency Active Fund as the DCLG SF3 statistics did not contain data for the fund.
3. The 'Deficit Reconciliation' measure was not calculated for South Yorkshire PTA and West Midlands ITA as information on deficit recovery periods was not applicable.

Appendix E: Asset Liability Modelling Exercise

Why perform an Asset Liability Modelling (ALM) exercise?

E.1 An ALM allows us to simultaneously project the assets and liabilities of the scheme under a range of scenarios, using stochastic techniques to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities.

E.2 A common use of ALM studies is to help scheme managers and sponsors determine investment, contribution and funding policy by illustrating the impact of changing policy on key variables, such as the funding level (i.e. ratio of assets to liabilities), of the scheme under a range of scenarios.

E.3 For this piece of work, we modelled the whole Scheme rather than individual funds and our focus was on variations of the employer contribution rates as a broad measure of long term cost efficiency and sustainability. We are primarily interested in the extent to which contributions can vary from current levels. Consequently we have assumed that the investment policy remains constant over the projection period.

E.4 Stochastic modelling techniques allow us to simulate thousands of economic scenarios – with different outturns and paths of key parameters and variables. The simulations are calibrated to reflect views on expected returns and relative behaviours between key variables, but importantly include an element of randomness in order to capture volatility observed in financial markets. By running the scenario generator many times, the spread of different possible outcomes can be illustrated and the probability of certain outcomes can be estimated.

E.5 As with all models, the outcomes are a function of the assumptions adopted, and the outcomes are not intended to be predictors of the future but can illustrate the range of possible outcomes. Our study models changes in economic outcomes only – we have not looked at demographic changes, including mortality, nor management changes such as changes to the investment approach.

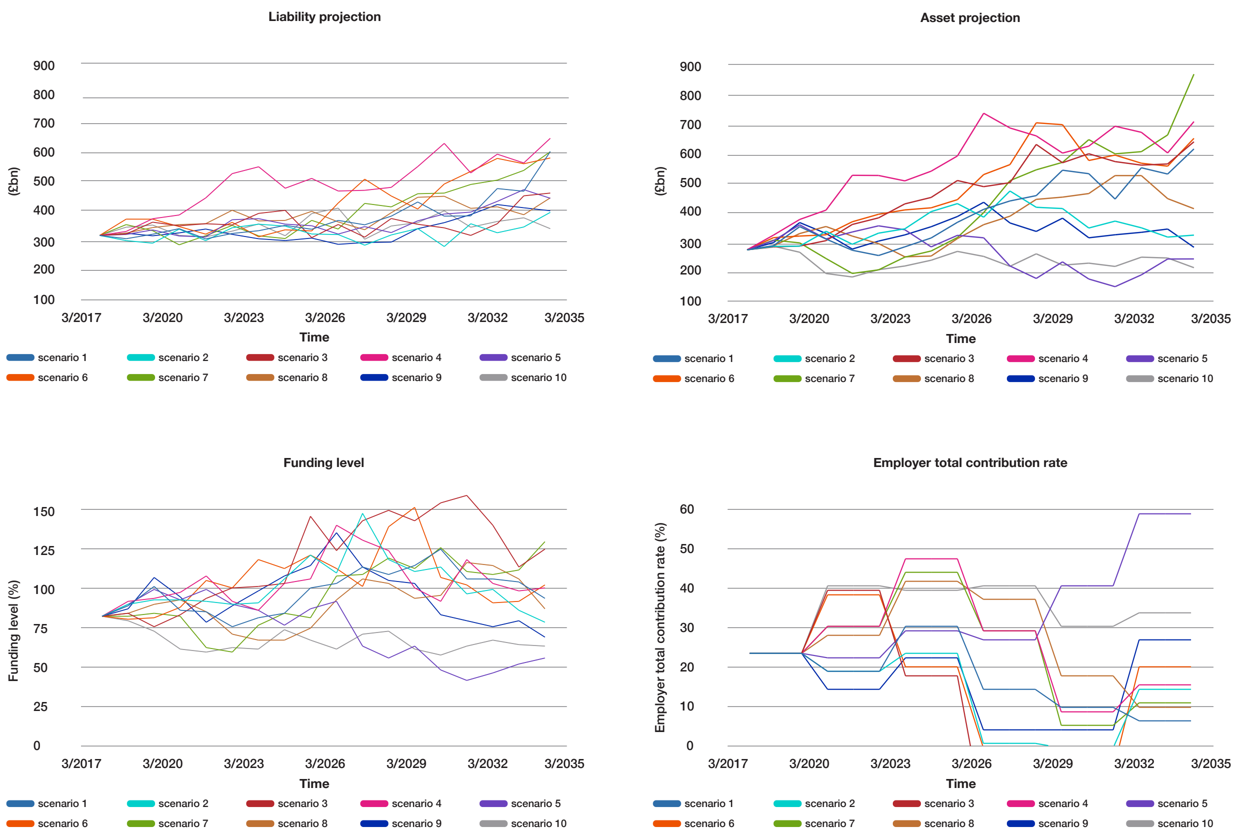
Outcomes of our modelling

E.6 The ALM exercise provides underlying projections, under thousands of scenarios, for a number of key variables and metrics of interest – including:

- The scheme's assets
- The scheme's liabilities
- The scheme's funding level and
- The contribution rate

E.7 For example, the charts below provide an illustration of these projected variables for the first 10 scenarios.

Chart E1: Simulated scenarios within the ALM

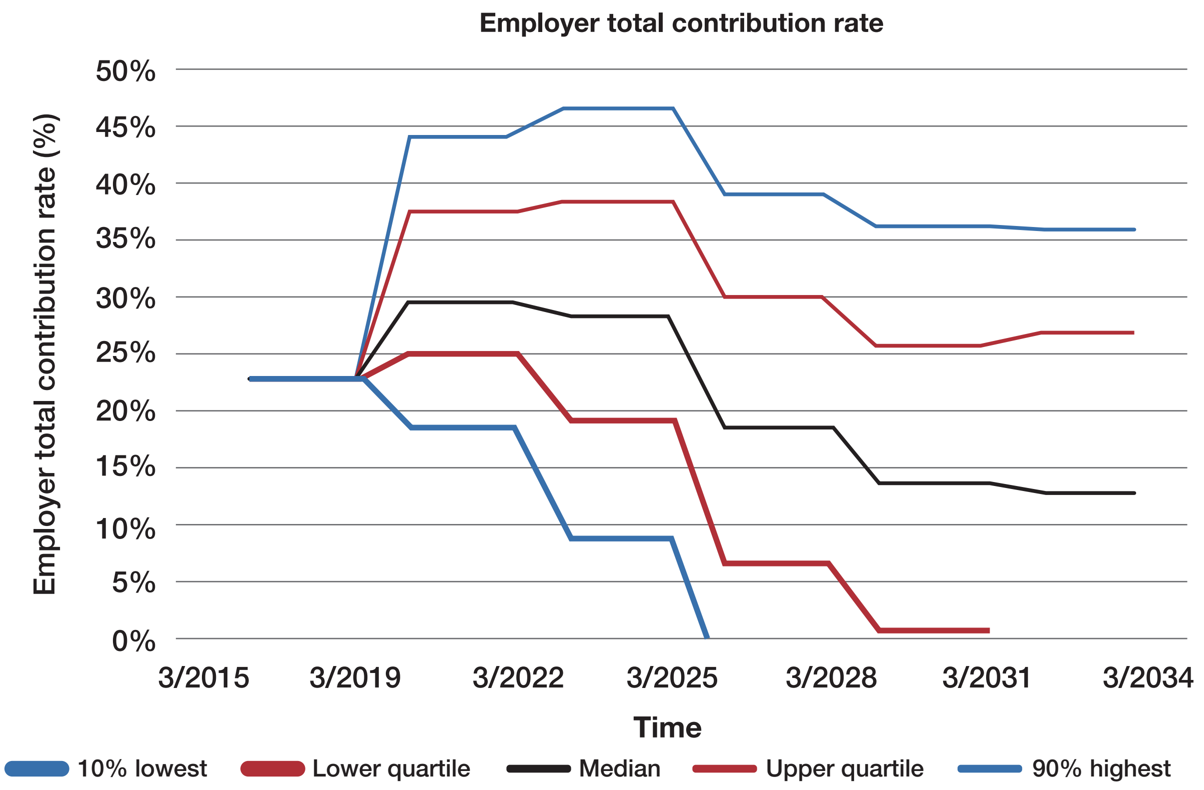


E.8 As demonstrated in these charts, there is a wide range of potential outcomes and there is a significant degree of volatility – demonstrating the risks taken by the Scheme.

E.9 In order to identify the projected trends of the scheme and assess the probability of extreme events, we instead consider different percentiles of the projected employer total contribution rates emerging at each future valuation.

E.10 Chart E2 shows the median value (black), upper and lower quartiles (red, 75th and 25th percentile respectively) and 90th highest, 10th lowest (blue, 90th and 10th percentile respectively) for the employer contribution rate, which allow for both the cost of benefit accrual and deficit contributions and are net of member contributions.

Chart E2: Employer total contribution rate

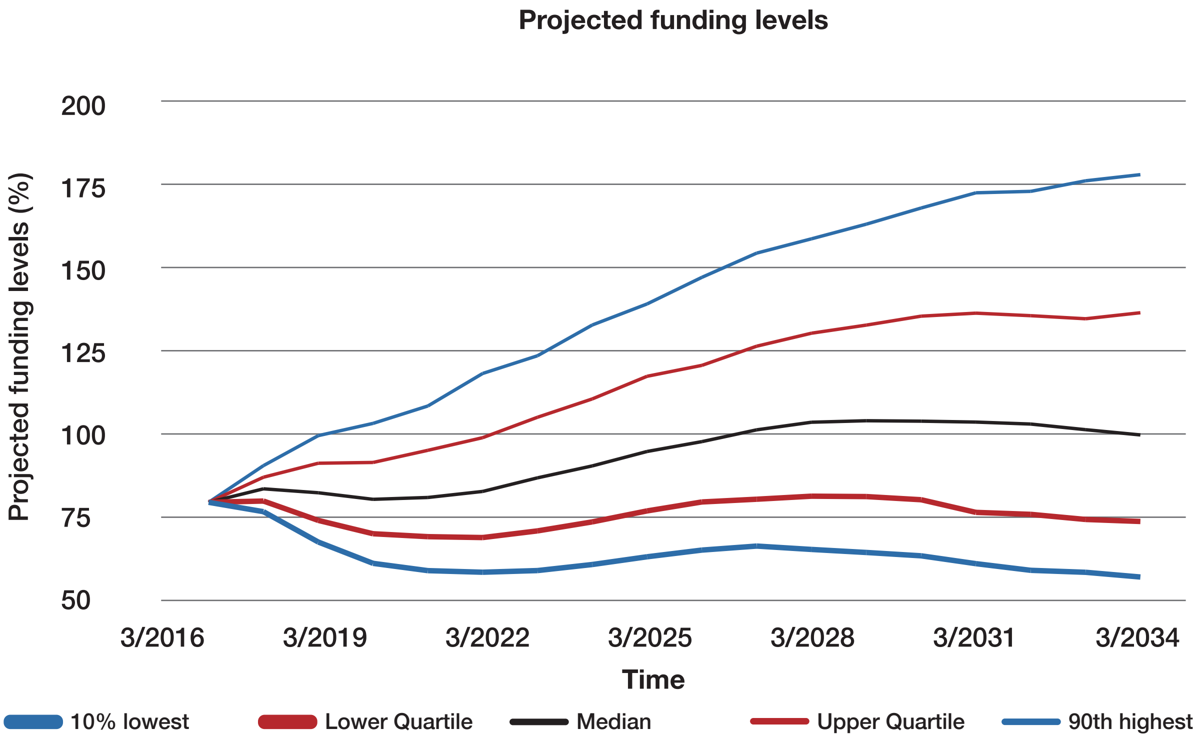


E.11 Note that none of the lines shown on this chart represent any simulated scenario – instead they are intended to represent the distribution of possible outcomes and how the range of simulated scenarios changes over the projection period.

E.12 The flipside to the projected contribution rate is the projected funding level of the scheme which is shown below.

E.13 Chart E3 shows that, under the parameters of the model, the funding level could range between 60% and 180% (10th and 90th percentile outcomes) but the median outcome tends towards a funding level of just above 100% over the projection period.

Chart E3: Projected funding levels



E.14 The key messages from the charts above show:

- In the short term, the model predicts upwards pressure on employer contributions at the next valuation cycle.
- In the medium to longer term, employer contributions are expected to fall, such that they are expected to be lower than current contribution levels.
- However there remains a significant risk that contributions are materially higher than current levels, throughout the projection period.
- Whilst the path of expected contribution rates is relatively smooth, the significant variation within each scenario demonstrates the sensitivity of the contribution rate and the extent to which it could swing from valuation to valuation.
- This should not be regarded as a prediction of the changes in future employer contribution rates, because it's highly unlikely that the assumptions made will be borne out in practice and adjustments might be made to manage such pressures as discussed below.

Short term cost pressure

E.15 Volatility of asset returns and economic conditions may place significant pressures on future rate of employer contributions. We performed an asset liability study to help quantify these risks.

E.16 For the purpose of assessing liabilities and determining contributions, assumptions are needed on how the set of assumptions used to carry out an actuarial valuation at each future point in time is updated. In our modelling we have assumed that:

- Changes to the financial assumptions will reflect market conditions at the valuation date (specifically, long term gilt yields)
- The length of the recovery period is fixed at 20 years
- Demographic experience is as assumed in the underlying valuations

E.17 The output of the model is the upward or downward pressure on contribution rates assuming that the impact of changes in economic conditions feed through directly to contribution setting.

E.18 In practice we might not expect these pressures to feed directly into changes in employer contribution rates, because for example if there was a downward (or upward) cost pressure the following adjustments might be considered:

- Asset strategy might be made more defensive which would be expected to reduce future volatility but would reduce the scope for reducing contributions (conversely, if there was an upward cost pressure, assets strategy might be made more return seeking)
- The length of the recovery period might be reduced (conversely, if there was an upward cost pressure, the length of recovery periods might be increased)
- The level of prudence might be increased, which could reduce the chance that future experience was worse than assumptions, but could also limit the scope for reducing contributions (conversely, if there was an upward cost pressure, the level of prudence might be increased)

E.19 The output of the model should not therefore be regarded as a prediction of changes in future employer contribution rates, but rather potential pressures on the employer contribution rates that might need to be managed in some way. It should be noted that any change to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- increasing the length of recovery periods transfers costs onto future generations;
- choosing a more return seeking asset strategy would be expected to increase volatility and risk

E.20 The model is based on certain parameters and assumptions which drive projected assets, liabilities and contributions. The key assumptions and methodology are discussed in detail below, but the key drivers of the projected increase in contributions rates are:

- A fall in gilt yields, since the last valuation date (31 March 2016), which is assumed to feed through to lower discount rates in the valuation basis
- The fall in gilt yields affects both the cost of providing ongoing benefits and increases the deficit in the Scheme, leading to higher deficit recovery contributions being required
- This is partially offset by strong investment returns, in particular in equity markets in 2016 and 2017

Longer term reduction in costs

E.21 In the longer term, the median outcome is that employer contributions come back to below current levels. The key drivers of this are:

- An assumed increase in gilt yields from currently low levels. This is assumed to feed through to higher valuation discount rates, which affects both the cost of providing ongoing benefits and lower deficit recovery contributions
- Deficit repair contributions paid by the employers leading to an improvement in the funding position of the Scheme and a reduction in the overall level of contributions payable
- The assumed investment return – reflecting the investment strategy that is heavily weighted towards equities and other growth assets

Risks of materially higher contribution rates

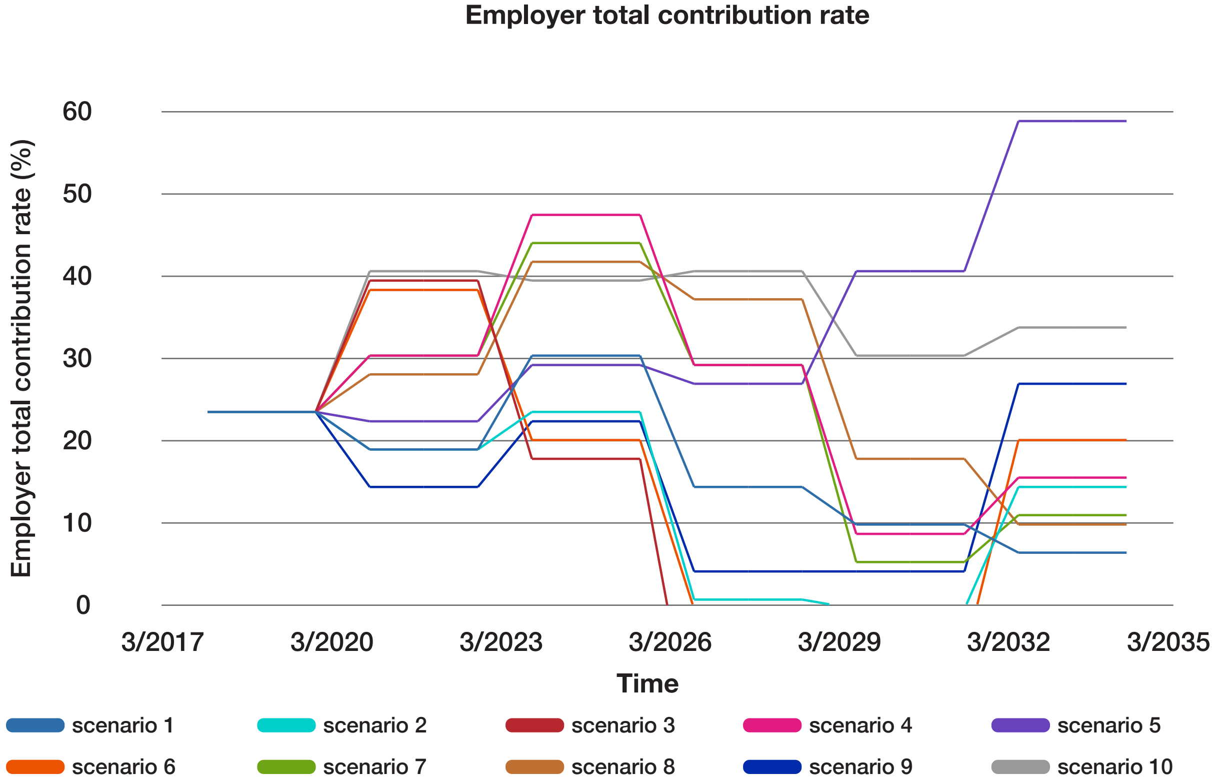
E.22 Despite the projected fall in contribution rates at the average level, the charts above demonstrate the potential for pressure on employer contributions relative to current rates. In particular, they demonstrate that there is roughly a 25% chance that contribution rates remain above 25% throughout the projection, and a 10% chance that they remain above 35%, before allowing for the management of those pressures discussed above.

E.23 The drivers of these scenarios is discussed in more detail below and reflects the key risk factors that the Scheme is running.

Contribution risk/volatility

E.24 Chart E2 represents the relevant percentile outcome at each point in time. As this is the percentile of all simulated scenarios, the lines shown do not represent particular scenarios or simulated outcomes. In the following chart we illustrate a series of contribution rate “paths” that the Scheme could experience according to our model. These show somewhat more apparent variation.

Chart E4: Individual employer contribution rate paths



E.25 This chart indicates that contribution rates can vary significantly from valuation to valuation under the model parameters.

E.26 Looking across all simulated scenarios and after removing the average trend in the projected future contribution rate, we estimate that there is around a 30% chance of potential pressure on the contribution rate of more than 8%, not allowing for management actions.

E.27 Again, the key drivers of this volatility are gilt yields and investment returns:

- Projected changes in gilt yields result in changes to the valuation basis which affect both the ongoing cost of accrual and the level of surplus or deficit in the Scheme.
- The significant investment exposure to risky assets (e.g. equities) which results in a volatile returns and funding levels.

Scheme risks

E.28 Whilst the charts and analysis outlined above give an indication of the range of plausible outcomes and the risk of material potential pressure on employer contributions, they do not explain the factors that might cause such increases.

E.29 As part of section 13, under solvency, we model (deterministically) some stress tests to evaluate whether fund employers are able to meet the additional contributions generated in relation to stress events. These stresses help quantify and illustrate each fund sensitivity to different risk factors.

E.30 In this section we further illustrate two of the key risk factors that can contribute to material increases in employer contribution rates – namely equity returns and future expected returns. We illustrate the risk factors by comparing experience of key variables in the scenarios with large contribution rates and how this compares to other scenarios.

Equity risks

E.31 With an investment strategy weighted towards growth assets, the return on equities is clearly a key risk factor in determining future contribution rates. As a result, one of the stress tests included in our solvency chapter captures an "asset shock", in which return seeking assets are stressed by 15% relative to the liabilities.

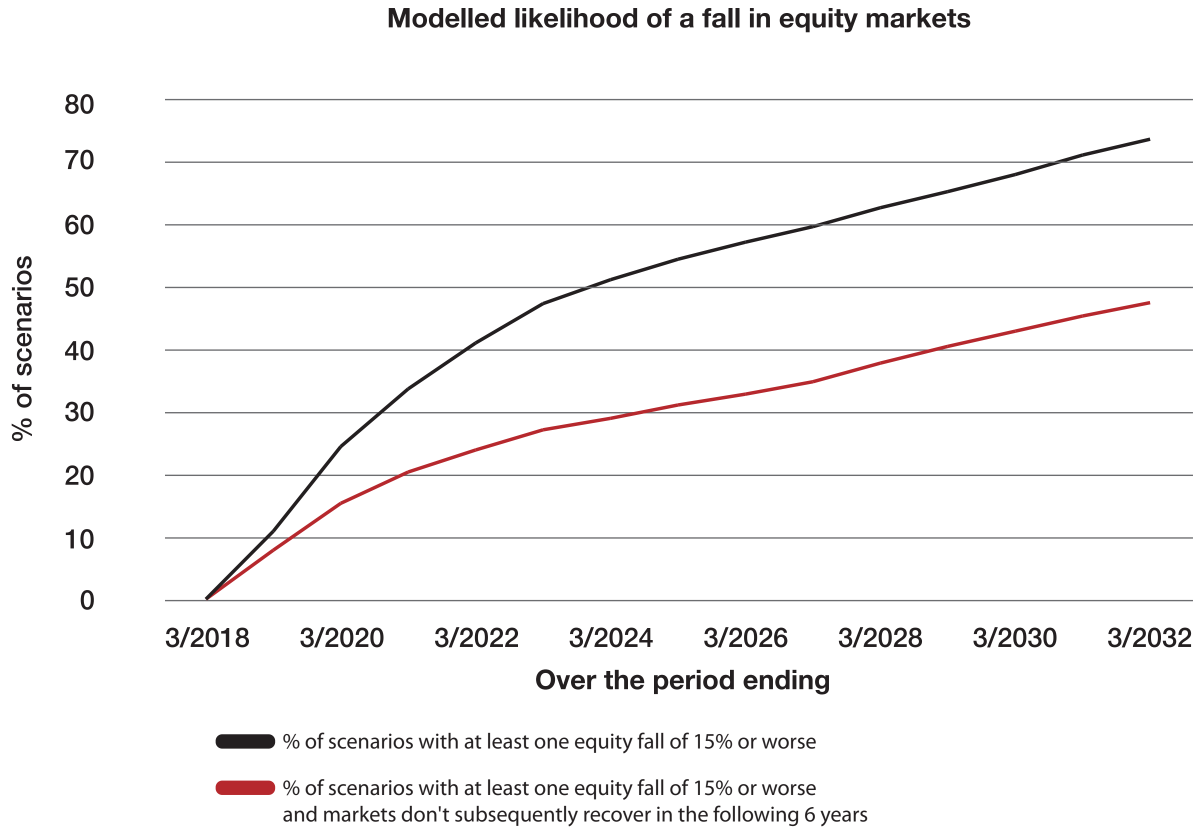
E.32 Investing in equities and other growth assets inevitably comes with volatile returns and the potential for significant downturns in asset values and returns. As a long term investor, the Scheme should be able to ride out short term volatility in returns. However, there remains significant risk of deeper and longer lasting shocks to equity markets.

E.33 The following chart helps to illustrate the possibility of this by showing:

- The proportion of simulated scenarios that experience at least one equity market fall by more than 15% over 12 months (black line) and
- The proportion of these scenarios that do not make a subsequent recovery[10] in the following 6 year period (red line)

[10] Defined as the equity total return index still being less than the pre-crash level 6 years after the fall.

Chart E5: Modelled likelihood of a fall in equity markets



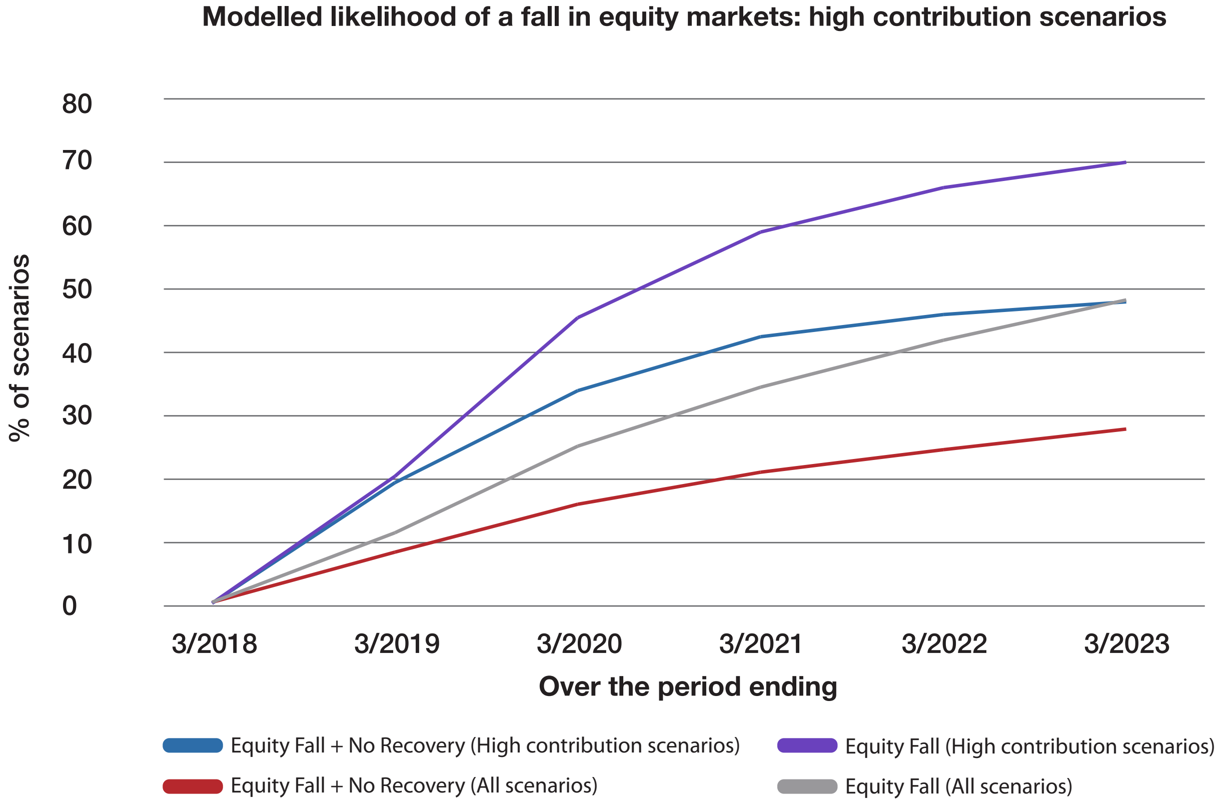
E.34 The chart shows that by 2023, roughly 50% of scenarios are simulated to experience a significant equity downturn, of which 30% of those scenarios do not make a subsequent recovery.

E.35 The chart above is populated for all scenarios. Generally speaking, scenarios which have material potential pressure on employer contributions are more likely to have experienced a significant equity downturn – reflecting the high level of equity risk being run in the scheme.

E.36 This is shown in the chart below, which filters on the scenarios with large simulated contribution rates in 2023[11] and shows the proportion of scenarios which are simulated to experience a downturn significantly increases.

[11] Defined as the scenarios which have a contribution rate at the 90th percentile or higher.

Chart E6: Modelled likelihood of a fall in equity markets: high contribution scenarios



E.37 In the scenarios with high contribution levels roughly 70% of scenarios are simulated to experience a significant equity downturn (vs 50% for all scenarios), of which 50% of those scenarios do not make a subsequent recovery (vs 30% for all scenarios).

E.38 This demonstrates that equity returns are a key driver of contribution rates.

Expected future returns

E.39 Equity returns are a key risk factor as they influence the returns achieved by the Scheme's assets and hence influence funding and valuation outcomes. Another key driver of contribution rates is the discount rate assumed in the valuation – which will be primarily driven by assumed future returns on investments.

E.40 In our ALM study, we have assumed that firms of actuarial advisors will update their views on expected future returns in line with projected changes in long term gilt yields (see below). Whilst we appreciate this is unlikely to be the approach adopted by the firms of actuarial advisors in practice, market expectation theory suggests that changes in gilt yields do provide an indication of the change in market expectations for future economic conditions.

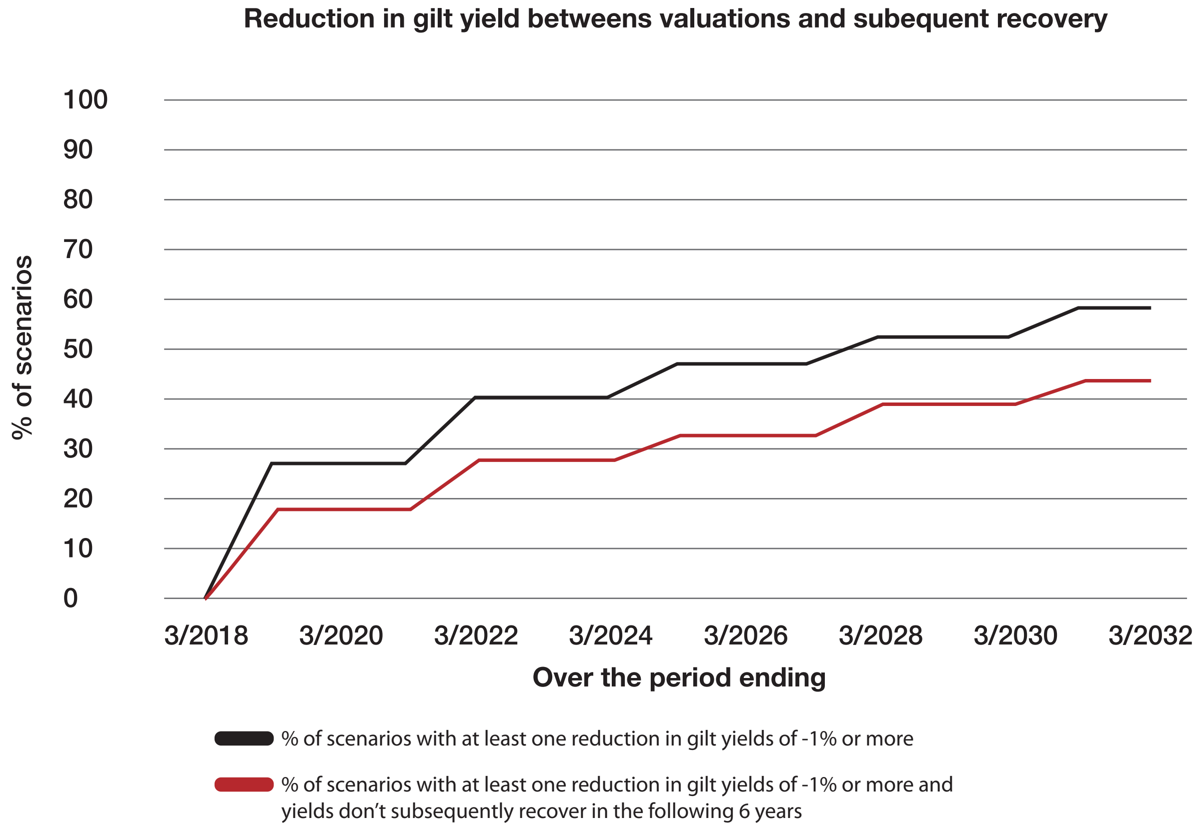
E.41 As a result, large reduction in gilt yields are likely to coincide with reduction in expected future returns which in turn would be expected to lead to higher contributions.

E.42 The following chart helps to illustrate the possibility of this by showing:

- The proportion of simulated scenarios that experience at least one significant reduction in expected future returns between valuations[12] (black line); and
- The proportion of these scenarios where expected returns do not revert[13] in the next two valuations (red line).

E.43 The chart shows that by 2023 around 50% of scenarios are simulated to experience a significant reduction in expected future returns, of which just over 30% of those scenarios do not experience a reversion in expectations in the next two valuations.

Chart E7: Modelled likelihood of a fall in gilt yields

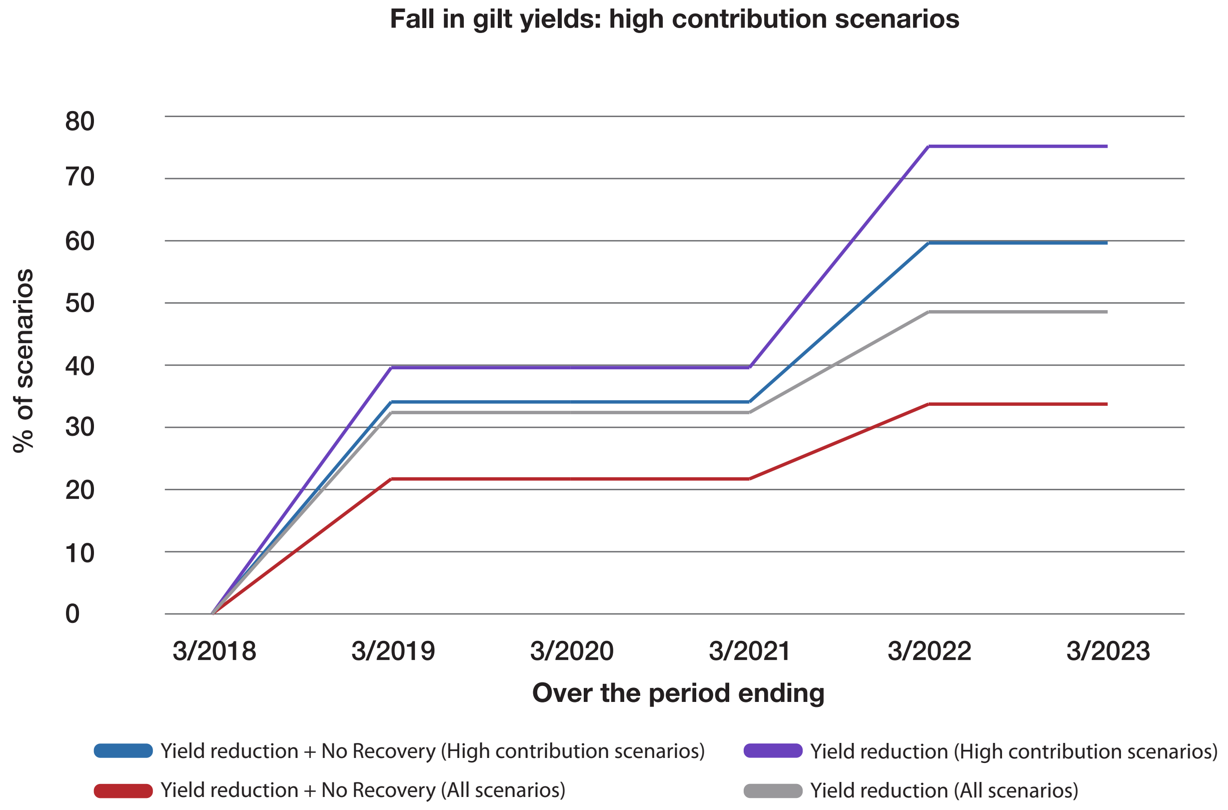


[12] Defined as a reduction in gilt yields of 1% or more between valuation cycles.
[13] Defined as the gilt yield still not returning to previous levels after two valuations.

E.44 The chart above is populated for all scenarios. Generally speaking, scenarios which have material potential pressure on employer contributions are more likely to have experienced a significant reduction in expected returns.

E.45 This is shown in the chart below, which filters on the scenarios with large simulated contribution rates in 2023[14] and shows the proportion of scenarios which are simulated to experience a reduction in expected returns significantly increases.

Chart E8: Modelled likelihood of a fall in gilt yields: high contribution scenarios



E.46 In the scenarios with high contribution levels roughly 75% of scenarios are simulated to experience a significant reduction in expected future returns (vs 50% for all scenarios), of which 60% of those scenarios do not experience a reversion in expectations in the next two valuations (vs 30% for all scenarios).

E.47 This demonstrates that future expected returns are a significant driver in determining contribution rates.

[14] Defined as the scenarios which have a contribution rate at the 90th percentile or higher.

Assumptions and methodology

Model

E.48 For this purpose we used our third party Asset Liability Model ('ALM') developed by Ortec Finance called GLASS (Global Liability and Asset Scenario Simulator). GLASS is based on a total balance sheet approach, meaning that assets, liabilities and contributions are consistently projected into the future.

E.49 GLASS takes scheme cash flow projections (that is benefit payments in respect of current active and non-active members of the Scheme) together with current asset values as its base input. To fully determine future cash flows over the future projection period, the scheme cash flows above are overlaid with:

- Additional cash flows in respect of new accrual in respect of both current and new active members.
- Projected revaluation and pension increases made to accrued pensions.

E.50 The initial assets within the scheme are projected forwards allowing for:

- Contributions paid by both members and employers.
- Pensions payable to retired members.
- Investment returns.

E.51 One of the key model inputs is the economic scenario generator (ESG) which is calibrated to current conditions and expectations for the future, and specifies how key economic variables such as inflation, wage growth and asset returns may vary (stochastically, according to probability distributions) in future.

E.52 Using these inputs and overlaying methodology, GLASS can be used to estimate future contribution rates, assets and liability values and hence funding levels in a dynamic projection process.

E.53 For this purpose we have used Ortec's "Lower for Longer" calibration that has been adjusted slightly in line with our house views. Ortec does provide alternative calibrations, but the Lower for Longer calibration, along with our adjustments aligns most closely with our own views.

Assumptions required

E.54 An ALM produces a broader amount of information than a traditional deterministic actuarial valuation. Consequently, we need to make more detailed assumptions to simplify the calculations involved in the projections and make it practical to analyse all the key outcomes we are interested in.

E.55 To project the development of the scheme we must make assumptions about:

- Key economic variable and financial assumptions – for example price inflation, salary growth and returns on assets held. These are determined from the ESG
- The way in which the Scheme invests its assets and whether and how this might change in the future
- The way in which liabilities will evolve – for example, the rate at which current active liabilities "migrate" to being non-active (i.e. deferred/pensioner liabilities) over time or the extent to which active liabilities are driven by CPI inflation and wage inflation at each point in time
- The way in which liabilities are assessed; and
- The way in which contributions are determined – both in respect of ongoing accrual and in respect of any surplus or deficit that arises

E.56 For the purpose of assessing liabilities and determining contributions we needed to assume what set of assumptions will be used by the firms of actuarial advisors to carry out an actuarial valuation at each future point in time being considered.

E.57 In practice, the firms of actuarial advisors are likely to set the discount rate with regards to the expected return on each fund's investments and are required to use prudence in setting these assumptions.

E.58 In our modelling we have assumed that changes to the valuation basis will be made in accordance with changes in long term gilt yields. The extent of the margin above gilt yields included in the valuation may, in practice, vary according to prevailing conditions, but we have not attempted to model this. That is we assume that the margin above gilt yields is constant relative to prevailing conditions at each valuation date.

E.59 Our model projects the entire Scheme in one go. The assumed asset strategy and future valuation assumptions are an average of those for the individual funds.

E.60 Full details of the calibration and projection and future valuation assumptions adopted for this exercise are available on request.

Appendix F: Data provided

F.1 At the request of the Ministry for Housing, Communities and Local Government ('MHCLG') the Government Actuary's Department ('GAD') has collected data from each fund's 2016 valuation report. These actuarial funding valuations were conducted by four firms of actuarial advisors:

- Aon
- Barnett Waddingham
- Hymans Robertson
- Mercer

F.2 Data was received from the relevant firm of actuarial advisors for all 91 pension funds. Information for both the Environment Agency Closed Fund and South Yorkshire Passenger Transport Authority Pension Fund have been taken directly from firms of actuarial advisors. Additional date was provided at an employer level in relation to Academies.

F.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2016 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their firms of actuarial advisors.

F.4 In addition, data has been collated from the '*Local government pension scheme funds local authority data*', which is published annually by DCLG. This published data may be referred to elsewhere as SF3 statistics.

F.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales Section 13 2016 Report.

F.6 The information provided to GAD is, in many instances, more detailed than that provided in the actuarial valuation reports.

F.7 There was some inconsistency in the information provided to GAD. For example, membership details were not always split by gender as requested. However, this did not have a material impact on the analysis that GAD was able to complete (we assumed the average male female breakdown for these funds).

F.8 Table F1 shows instances where material information was not provided by the fund on time. These gaps in information forced us to implement a work around that could cast doubt on the outcomes of our work for those funds.

Table F1: Missing or late Information

Fund	Missing or late Information
London Borough of Barnet Pension Fund	No valuation data was provided to GAD as at 2016
Environmental Agency Closed/ Active Funds	Valuation data was provided to GAD as at 2016, but after the deadline specified
London Borough of Barking and Dagenham Pension Fund	No value of liabilities and funding level on the SAB standardised basis were provided.

F.9 We had no alternative but to assume an average profile for these funds, which limits the reliance that can be placed on the analysis.

F.10 Our engagement has highlighted that some funds have provided incorrect data for statutory data returns to MHCLG[15], particularly in relation to the proportion of non-statutory members. It would be helpful if funds ensured that correct information was provided in these returns.

[15] These returns are known as SF3 returns, https://www.gov.uk/government/statistics/local-government-pension-scheme-funds-for-england-and-wales-2016-to-2017

Contribution rate data

F.11 Primary and secondary rates have now replaced common contribution rate (CCRs) in legislation. We now have data that gives an overview of total employer contributions to the fund, which we have used. In contrast, CCRs from 2013 valuations did not always reflect employer contribution rates actually paid, so primary and secondary rates are more useful. However, we have also compared contribution rates between 2013 and 2016 valuations. There is a transitional issue, as 2013 valuations CCRs don't always reflect average employer contribution rates and alternative data were not available. In some cases therefore we have used dry run data for 2014/15 contributions (see table below). However, we expect that this will not be a material issue for future section 13 reports, as it should be possible to compare primary and secondary rates between the 2016 and 2019 valuations.

- For example, in the Wiltshire Pension Fund 2016 Valuation Report, Hymans Robertson stated "The table below shows the Fund "common contribution rate" as at 31 March 2013 for information purposes. The change in regulatory regime and guidance on contribution rates means that a direct comparison to the Whole Fund rate at 2016 is not appropriate.[16]"

F.12 In the following table we set out the 2013 common contribution rate, the 2014-15 actual contribution rate and the 2016 recommended contribution rates to illustrate the variation between actual rates and disclosed (common contribution rates) which could lead to incorrect interpretations being drawn.

Table F2: Contribution comparison

Pension fund	Firm of actuarial advisors	2013 common contribution rate*	Average employer contribution rate actually paid**	Difference	2016 standard contribution rate*
Avon Pension Fund	Mercer	23%	21%	-2%	23%
Bedfordshire Pension Fund	Hymans Robertson	28%	23%	-5%	26%
Buckinghamshire County Council Pension Fund	Barnett Waddingham	20%	19%	0%	21%
Cambridgeshire Pension Fund	Hymans Robertson	31%	20%	-11%	23%
Cardiff and Vale of Glamorgan Pension Fund	Aon	22%	23%	1%	23%
Cheshire Pension Fund	Hymans Robertson	27%	23%	-4%	27%
City and County of Swansea Pension Fund	Aon	22%	22%	0%	25%
City of London Corporation Pension Fund	Barnett Waddingham	17%	17%	0%	21%
City of Westminster Pension Fund	Barnett Waddingham	30%	20%	-10%	29%
Clwyd Pension Fund	Mercer	28%	26%	-2%	28%
Cornwall Pension Fund	Hymans Robertson	30%	21%	-9%	27%
Cumbria Local Government Pension Scheme	Mercer	24%	21%	-3%	21%
Derbyshire Pension Fund	Hymans Robertson	28%	20%	-8%	20%
Devon County Council Pension Fund	Barnett Waddingham	19%	19%	0%	21%
Dorset County Pension Fund	Barnett Waddingham	19%	18%	0%	21%
Durham County Council Pension Fund	Aon	21%	21%	0%	25%
Dyfed Pension Fund	Mercer	18%	16%	-2%	17%

[16] No alternative figure was provided to facilitate comparison

Pension fund	Firm of actuarial advisors	2013 common contribution rate*	Average employer contribution rate actually paid**	Difference	2016 standard contribution rate*
East Riding Pension Fund	Hymans Robertson	29%	24%	-6%	24%
East Sussex Pension Fund	Hymans Robertson	27%	20%	-7%	22%
Environment Agency Active Fund	Hymans Robertson	24%	14%	-10%	19%
Environment Agency Closed Fund	Hymans Robertson	0%	0%	0%	0%
Essex Pension Fund	Barnett Waddingham	22%	23%	1%	22%
Gloucestershire County Council Pension Fund	Hymans Robertson	33%	28%	-5%	33%
Greater Gwent (Torfaen) Pension Fund	Hymans Robertson	23%	23%	0%	22%
Greater Manchester Pension Fund	Hymans Robertson	22%	18%	-4%	21%
Gwynedd Pension Fund	Hymans Robertson	24%	23%	-1%	21%
Hampshire County Council Pension Fund	Aon	22%	20%	-1%	25%
Hertfordshire County Council Pension Fund	Hymans Robertson	26%	22%	-4%	24%
Isle of Wight Council Pension Fund	Hymans Robertson	31%	23%	-9%	24%
Islington Council Pension Fund	Mercer	28%	20%	-8%	21%
Kent County Council Pension Fund	Barnett Waddingham	20%	21%	1%	20%
Lancashire County Pension Fund	Mercer	23%	20%	-3%	20%
Leicestershire County Council Pension Fund	Hymans Robertson	28%	21%	-8%	25%
Lincolnshire Pension Fund	Hymans Robertson	32%	20%	-12%	24%
London Borough of Barking and Dagenham Pension Fund	Hymans Robertson	31%	23%	-8%	25%
London Borough of Barnet Pension Fund	Hymans Robertson	24%	24%	0%	27%
London Borough of Bexley Pension Fund	Mercer	24%	21%	-3%	21%
London Borough of Brent Pension Fund	Hymans Robertson	39%	28%	-11%	35%
London Borough of Bromley Pension Fund	Mercer	26%	25%	-1%	23%
London Borough of Camden Pension Fund	Hymans Robertson	35%	28%	-7%	33%
London Borough of Croydon Pension Fund	Hymans Robertson	31%	23%	-8%	25%
London Borough of Ealing Pension Fund	Mercer	28%	22%	-6%	24%
London Borough of Enfield Pension Fund	Aon	21%	21%	0%	23%
London Borough of Hackney Pension Fund	Hymans Robertson	35%	38%	3%	33%
London Borough of Hammersmith and Fulham Pension Fund	Barnett Waddingham	22%	22%	0%	23%
London Borough of Haringey Pension Fund	Hymans Robertson	36%	24%	-12%	24%
London Borough of Harrow Pension Fund	Hymans Robertson	34%	20%	-14%	25%
London Borough of Havering Pension Fund	Hymans Robertson	38%	23%	-15%	29%
London Borough of Hillingdon Pension Fund	Hymans Robertson	29%	22%	-7%	24%
London Borough of Hounslow Pension Fund	Barnett Waddingham	19%	20%	1%	21%
London Borough of Lambeth Pension Fund	Hymans Robertson	36%	35%	-1%	28%

Pension fund	Firm of actuarial advisors	2013 common contribution rate*	Average employer contribution rate actually paid**	Difference	2016 standard contribution rate*
London Borough of Lewisham Pension Fund	Hymans Robertson	36%	18%	-18%	22%
London Borough of Merton Pension Fund	Barnett Waddingham	21%	36%	15%	19%
London Borough of Newham Pension Fund	Barnett Waddingham	25%	24%	-1%	21%
London Borough of Redbridge Pension Fund	Hymans Robertson	28%	25%	-4%	25%
London Borough of Richmond Upon Thames Pension Fund	Barnett Waddingham	28%	26%	-2%	24%
London Borough of Southwark Pension Fund	Aon	21%	22%	1%	21%
London Borough of Tower Hamlets Pension Fund	Hymans Robertson	36%	31%	-5%	29%
London Borough of Waltham Forest	Mercer	27%	24%	-4%	27%
London Pensions Fund Authority Pension Fund	Barnett Waddingham	20%	23%	3%	20%
Merseyside Pension Fund	Mercer	25%	23%	-1%	24%
Norfolk Pension Fund	Hymans Robertson	30%	22%	-8%	27%
North Yorkshire Pension Fund	Aon	21%	21%	0%	21%
Northamptonshire Pension Fund	Hymans Robertson	32%	23%	-10%	24%
Northumberland County Council Pension Fund	Aon	25%	25%	0%	27%
Nottinghamshire County Council Pension Fund	Barnett Waddingham	19%	19%	0%	20%
Oxfordshire County Council Pension Fund	Barnett Waddingham	19%	20%	1%	19%
Powys County Council Pension Fund	Aon	23%	23%	0%	27%
Rhondda Cynon Taf County Borough Council Pension Fund	Aon	21%	21%	0%	24%
Royal Borough of Greenwich Pension Fund	Barnett Waddingham	19%	19%	1%	18%
Royal Borough of Kensington and Chelsea Pension Fund	Barnett Waddingham	18%	18%	0%	18%
Royal Borough of Kingston Upon Thames Pension Fund	Hymans Robertson	31%	25%	-6%	23%
Royal county of Berkshire Pension Fund	Barnett Waddingham	19%	19%	0%	22%
Shropshire County Pension Fund	Mercer	25%	19%	-6%	22%
Somerset County Council Pension Fund	Barnett Waddingham	20%	18%	-3%	23%
South Yorkshire Passenger Transport Pension Fund	Barnett Waddingham	23%	23%	0%	31%
South Yorkshire Pension Fund	Mercer	24%	21%	-3%	22%
Staffordshire Pension Fund	Hymans Robertson	31%	20%	-11%	26%
Suffolk Pension Fund	Hymans Robertson	28%	26%	-3%	26%
Surrey Pension Fund	Hymans Robertson	31%	22%	-9%	23%
Sutton Pension Fund	Barnett Waddingham	35%	23%	-12%	26%
Teesside Pension Fund	Aon	13%	15%	2%	16%
Tyne and Wear Pension Fund	Aon	24%	26%	2%	25%
Wandsworth Council Pension Fund	Barnett Waddingham	19%	19%	0%	18%

Pension fund	Firm of actuarial advisors	2013 common contribution rate*	Average employer contribution rate actually paid**	Difference	2016 standard contribution rate*
Warwickshire Pension Fund	Hymans Robertson	29%	17%	-12%	23%
West Midlands Integrated Transport Authority Pension Fund	Barnett Waddingham	22%	52%	30%	84%
West Midlands Pension Fund	Barnett Waddingham	26%	26%	0%	28%
West Sussex County Council Pension Fund	Hymans Robertson	26%	24%	-2%	25%
West Yorkshire Pension Fund	Aon	16%	16%	0%	19%
Wiltshire Pension Fund	Hymans Robertson	31%	21%	-11%	27%
Worcestershire County Council Pension Fund	Mercer	26%	25%	-1%	26%

*The sum of primary contribution rate and contribution rate in respect of surplus/ deficit

**For Mercer clients, this represents the average employer contribution rate paid over the intervaluation period submitted with the 2016 data. For other funds, this represents the average 2014/15 employer contribution rate submitted in the data for the 2013 dry run.

Data specification

1) MEMBERSHIP DATA

Data split by gender.

a) Active members: number of members, average age (weighted as appropriate), average period of membership, total rate of annual actual pensionable pay at 31 March 2016 and 31 March 2013, total rate of annual FTE pensionable pay at 31 March 2016 and 31 March 2013,

b) Pensionable pay definition, has the 2008 or 2014 definition been used to assess pensionable pay for both 31 March 2016 and 31 March 2013

c) Deferred members: number of members, average age (weighted as appropriate), total annual preserved pension revalued to 31 March 2016 for both 31 March 2016 and 31 March 2013. Note this should exclude undecided members.

d) Pensioners (former members): number of members, average age (weighted as appropriate), total annual pensions in payment at 31 March 2016 and 31 March 2013

e) Pensioners (dependants including partners and children): number of members, average age (weighted as appropriate), total annual pensions in payment at 31 March 2016 and 31 March 2013

2) FINANCIAL ASSUMPTIONS

f) Provide assumptions used for past service liabilities these have been given for both as at 31 March 2016 and 31 March 2013.
   - i) Nominal discount rate (pre & post retirement separately if applicable)
   - ii) RPI inflation
   - iii) CPI inflation rate
   - iv) Earnings inflation

g) Provide assumptions used for future contributions, these have been given for both as at 31 March 2016 and 31 March 2013.
   - i) Nominal discount rate (pre & post retirement separately if applicable)
   - ii) RPI inflation
   - iii) CPI inflation rate
   - iv) Earnings inflation

h) Provide a method by which the discount rates are derived
   - i) CPI+
   - ii) Gilts
   - iii) Weighted Average expected return on assets classes
   - iv) Other (please specify)

i) Asset Outperformance assumption for both 31 March 2016 and 31 March 2013.

j) Short term assumptions used in the valuation for year 2016-17,2017-18,2018-19,2019-20
   - i) CPI
   - ii) Salary Increases
   - iii) Discount Rate

If different assumptions were adopted, there was a separate tab (called Alternative Assumptions) for these other assumptions.

ALTERNATIVE FINANCIAL ASSUMPTIONS

a) Provide assumptions used for past service liabilities these have been given for both as at 31 March 2016 and 31 March 2013.
   - i) Nominal discount rate (pre & post retirement separately if applicable)
   - ii) RPI inflation
   - iii) CPI inflation rate
   - iv) Earnings inflation

b) Provide assumptions used for future contributions, these have been given for both as at 31 March 2016 and 31 March 2013.
   - i) Nominal discount rate (pre & post retirement separately if applicable)
   - ii) RPI inflation
   - iii) CPI inflation rate
   - iv) Earnings inflation

c) Provide a method by which the discount rates are derived
   - i) CPI+
   - ii) Gilts
   - iii) Weighted Average expected return on assets classes
   - iv) Other (please specify)

d) Asset Outperformance assumption for both 31 March 2016 and 31 March 2013.

e) Short term assumptions used in the valuation for year 2016-17,2017-18,2018-19,2019-20
   - i) CPI
   - ii) Salary Increases
   - iii) Discount Rate

3) **DEMOGRAPHIC ASSUMPTIONS**

Rates to be provided at sample ages split by gender

Each could be split further in Group 1, Group 2, Group 3, Group 4, and Group 5

a) Assumed life expectancy

i) Pensioner members aged 65 (for members retiring on normal health) (to 2dp)Rates of Ill-health Retirement from Active service

ii) Pensioner members aged 65 (for members retiring on ill health) (to 2dp)

iii) Pensioner members aged 65 (for dependants) (to 2dp)

iv) Active / deferred members at age 65 if they are currently aged 45 (for members retiring on normal health) (to 2dp)

v) Active / deferred members at age 65 if they are currently aged 45 (for members retiring on ill health) (to 2dp)

b) Post-retirement Mortality

i) Baseline (e.g. 100% S1NMA)

ii) Future improvements (e.g. CMI 2012)

iii) Long term rate of future improvement (%)

c) Commutation

i) Pre 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules)*

ii) Post 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules)*

*For example, maximum proportion of pension that may be commuted under the 2008 scheme is 35.71%. This will give a lump sum equal to the permitted maximum and thus if the member is assumed to commute this amount of pension, the entry in the table above is 100%.

* For pre2008 service, members already receive a lump sum = 3/80ths x pre 2008 pensionable service x final pensionable salary. Please specify the pre 2008 assumption as the proportion of the permitted maximum that is expected to be commuted over and above the 3/80ths lump sum.

d) Promotional Salary Scale (if not included in earnings inflation assumption), this is further split by ages increasing in multiples of 5 from age 20 to 65

If included in earnings assumption, indicate Y

4) **ASSETS**

These are split to provide information for 31 March 2016 and 31 March 2013

a) Value of Assets (market value)

b) Actual Asset Distribution split into the following:

i) Proportion of assets held in Bonds (fixed interest government bonds, fixed interest non-government bonds, inflation linked bonds)

ii) Proportion of assets held in Equities (UK equities, overseas equities, unquoted or private equities

iii) The rest in Property, Insurance Policies, Fully insured annuities, Deferred or immediate fully insured annuities, Hedge funds, Cash and net current assets, Commodities, ABC arrangements, Infrastructure – debt type, Infrastructure* – equity type "Other" investments – defensive*, "Other" investments – return seeking

* Please provide details of infrastructure projects undertaken since 1 April 2013, and further plans to increase this on a separate sheet.

** Please provide information on whether local housing stock is held within the property portfolio, and any future plans to add this asset class.

c) Value of assets used in valuation

d) Is a smoothed asset value used? If Yes, an explanation is included

5) LIABILITIES AND FUTURE CONTRIBUTION RATE

These are split to provide information for 31 March 2016 and 31 March 2013;

i) Local assumptions

a) Past service liability – split between Actives, Deferred, Pensioners and Total

b) Funding level

c) Surplus / deficit

d) Deficit recovery period

e) Past service liability (on a low risk / gilts basis) – split between Actives, Deferred, Pensioners and Total

Future contribution rates

f) Primary contribution rate

g) If primary contribution rate include deficit recovery contributions

h) Standard contribution rate

i) Contribution rate in respect of surplus or deficit

j) Assumed member contribution yield

k) Expenses, split by administration and investment (if not included implicitly in discount rate)

l) Pensionable Pay definition (2008 or 2014 scheme definition)

m) Is a smoothed liability value used? If Yes, an explanation is included

ii) SAB standardised basis (only relevant for England and Wales)

a) Past service liability – split between Actives, Deferred, Pensioners and Total

b) Funding level

c) Surplus / deficit

d) Deficit recovery period

Future contribution rates

h) Standard contribution rate

i) Contribution rate in respect of surplus or deficit

j) Assumed member contribution yield

6) REVENUE ACCOUNTS

a) Value of assets at last valuation (after any smoothing or other adjustments)

b) Value of assets at this valuation (after any smoothing or other adjustments)

c) Total Income: Employee contributions, normal employer contributions, special employer contributions, transfers in, investment income, other income

d) Total Expenditure: Pensions paid, retirement lump sums paid, other lump sums paid, transfers out, investment expenses, administration expenses, other outgoings

7) ANALYSIS OF SURPLUS (PAST SERVICE LIABILITY)

a) Surplus / deficit at last valuation

b) Interest on surplus/deficit

c) Difference between contribution paid and cost of benefits accrued

d) Total experience gains and losses (of which: investment return experience, salary increase experience, pension increase experience, pensioner mortality experience, other demographic experience)

e) Total change in assumptions (of which: financial assumptions, mortality assumptions, other demographic assumptions)

f) Other

g) Surplus / deficit at this valuation

8) ANALYSIS OF CHANGE IN FUTURE SERVICE CONTRIBUTION RATE

a) Future service rate at last valuation

b) Total effect of change in assumptions (Of which: financial assumptions, mortality assumptions, other demographic assumptions)

c) Change due to introduction new benefit design from April 2014

d) Other

e) Change in definition of pensionable pay

f) Future service rate at this valuation (common contribution rate)

9) DEFICIT RECONCILIATION

Complete the three yearly deficit repayments from the last valuation and from this valuation to demonstrate continuity of deficit recovery plan.

a) Nominal deficit contributions expected to be paid in the three year period for the current valuation (March 2016), previous valuation (March 2013) and the difference: for 2013-2016, 2016-2019, 2019-2022, 2022-2025, 2025-2028, 2028-2031, 2031-2034, 2034-2017, 2037+. The nominal difference should also be included.

b) Present value of deficit contributions expected to be paid in the three year period: the current valuation (March 2016), previous valuation (March 2013) and the difference: for 2013-2016, 2016-2019, 2019-2022, 2022-2025, 2025-2028, 2028-2031, 2031-2034, 2034-2017, 2037+, Sum of present values, Original deficit disclosed.

10) AVERAGE EMPLOYER CONTRIBUTION RATE

For years 2017/18, 2018/19 and 2019/20

a) Average employer contribution rate, current benefit accrual (%pay)

b) Total deficit contributions payable (where expressed as a fixed monetary amount (£)

c) Projected total deficit contributions (where expressed as a percentage of pay (% pay)

d) Total deficit contributions (£)

e) Total deficit contributions (expressed as a % of pay) (% pay)

f) Average employer contribution rate (% pay)

g) Total projected pay (£)

h) Pensionable Pay definition (2008 or 2014 scheme definition)

i) Long Stepping Periods – If a longer stepping period than three years, then it should be indicated and an explanation included.

11) POST 2014 SCHEME

a) Proportion of members assumed to be in 50/50 scheme split by gender

12) DOCUMENTATION REQUIRED

a) Valuation Report @ 31 March 2016

b) Relevant related reports

c) Compliance Extract

d) Statement of Investment Strategy

e) Funding Strategy Statement

f) Other

Explanatory notes

1 **Membership data:** Average ages should be unweighted, weighted by salary/pension and weighted liability as available. Accrued pensions should include the 2016 Pension Increase Order.

3 **Demographic Assumptions:** We expect this to be shown at sample ages only which will be specified in our template. For example promotional salary scale we intend to use five-year intervals from 20 to 65.

3c **Commutation:** Maximum proportion of pension that may be commuted under the 2008 scheme is 35.71%. This will give a lump sum equal to the permitted maximum and thus if the member is assumed to commute this amount of pension, the entry in the table above is 100%. For pre2008 service, members already receive a lump sum = 3/80ths x pre 2008 pensionable service x final pensionable salary. Please specify the pre 2008 assumption as the proportion of the permitted maximum that is expected to be commuted over and above the 3/80ths lump sum.

5j **Assumed member contribution yield:** This is the contribution yield that members are assumed to pay over the valuation period. It will vary by authority due to the tiered member contribution rates.

4b **Infrastructure - debt type:**

Infrastructure - equity type: Whether local housing stock is held within the property portfolio

10 The average employer contribution rate should be calculated as projected employer contributions in 2017/18 divided by projected pensionable pay in 2017/18. The rate for 2018/19 and 2019/20 should be calculated by the same method. We request the following:

10a **Average employer contribution rates –** current benefit accrual (% pay): weighted average of cost of current accruals (net of employee contributions)

10b **Total deficit contributions payable** (where fixed monetary amount) (£): Sum of deficit contribution where expressed as a fixed monetary amount. Ignore deficit contributions paid as a proportion of pay for this item

10c **Projected total deficit contributions payable** (where expressed as a percentage of pay) (£): Projected payment in £ terms – will require an assumption about projected pay. Ignore deficit contribution paid as a fixed monetary amount

10d **Total deficit contributions (£):** The sum of 10b) and 10c)

10e **Total deficit contributions expressed a percentage of pay (% pay):** Row 10d) re-expressed as a percentage of pay by dividing by projected pay across the whole fund (i.e. 10d) divided by 10g))

10f **Average employer contribution rate (% pay):** Sum of 10a) and 10e)

10g **Projected pay (£): Total projected pay (£):** For all employers in the fund

Since projected pensionable pay (10g)) acts only as the weightings in these weighted averages, it is acceptable to use a simple projection of pensionable pay (eg based on actual pensionable pay at 31 Mar 2016 with a simple factor for increases up to 2020).

Appendix G: Assumptions

G.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

- The local fund assumptions, as used in the fund's 2016 actuarial valuation
- The SAB standardised set of assumptions, or SAB standard basis
- A best estimate set of assumptions

G.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2016. Details of the SAB standard basis and the standardised best estimate basis can be found in the table below. Differences are highlighted.

Table G1: SAB standard basis[17] and best estimate basis

ASSUMPTION	SAB standard basis	Best estimate basis
Methodology	Projected Unit Methodology with 1 year control period	Projected Unit Methodology with 1 year control period
Rate of pension increases	2% per annum	1.9% per annum
Public sector earnings growth	3.5% per annum	3.9% per annum
Discount rate	5.06% per annum	5.59% per annum
Pensioner baseline mortality	Set locally based on Fund experience	
Mortality improvements	Long term reduction in mortality rates of up to 1.5% per annum	
Changes to state pension age	As legislated	
Age retirement	Set locally based on Fund experience	
Ill health retirement rates	Set locally based on Fund experience	
Withdrawal rates	Set locally based on Fund experience	
Death before retirement rates	Set locally based on Fund experience	
Promotional salary scales	None	Set locally based on Fund experience
Commutation	SAB future service cost assumption of 65% of the maximum allowable amount.	
Family statistics	Set locally based on Fund experience	

G.3 The financial assumptions for the best estimate basis are based on GAD's neutral assumptions for long term inflation measures and asset returns, and the split of LGPS assets held as at 31 March 2016. These neutral assumptions are not deliberately optimistic nor pessimistic and do not incorporate adjustments to reflect any desired outcome. We believe there is around a 50% chance of outcomes being better and a 50% chance of outcomes being worse than these assumptions imply.

G.4 Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rate should be. We have presented GAD's house view above, but there are other reasonable best estimate bases which may give materially different results.

[17] Details can be found in the Scheme Advisory Board's Cost Management Process at: http://www.lgpsboard.org/images/PDF/CMBDANov2016/AI5-SABCMP2.pdf. This document specifies assumptions, some of which have been approximated for the purposes of this exercise (as set out in Table G1).

Table G2: Implied[18] Life Expectency best estimate basis

	Implied weighted average life expectency best estimate basis (years)
Current pensioners	
Male aged 65	22.4
Female aged 65	24.9

[18] This is the weighted average life expectancy of locally derived figures, weighted by pensioner liability. Some actuaries combined ill health pensioners with normal health in their life expectancy calculations. We have not adjusted for this.

Appendix H: Section 13 of the Public Service Pensions Act 2013[19]

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long term cost efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

[19] http://www.legislation.gov.uk/ukpga/2013/25/section/13

Appendix I: Extracts from other relevant regulations

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 2013[20]'

Funding strategy statement

58.–(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to—

(a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)[21]"; and

(b) the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Actuarial valuations of pension funds

62.–(1) An administering authority must obtain—

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;

(b) a report by an actuary in respect of the valuation; and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying—

(a) the primary rate of the employer's contribution; and

(b) the secondary rate of the employer's contribution,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund

[20] http://www.legislation.gov.uk/uksi/2013/2356/contents/made

[21] ISBN Number 085299 996 8; copies may be obtained from CIPFA at 3 Robert Street, London, WC2N 6RL

by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

(a) the existing and prospective liabilities arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a common rate as possible;

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Dear Sirs

Local Government Pension Scheme 2016 Section 13 Valuation

We are writing to you as the responsible authority for the LGPS and Chair of the Local Government Pension Scheme Advisory Board (England and Wales) on behalf of the four firms who provide actuarial advice to LGPS funds regarding the Section 13 review carried out by the Government Actuary's Department (GAD).

We recognise that the initial headline messages in the report are positive about the overall progress being made by the LGPS, and this has been identified in the initial press reports which have emerged since the report's publication. Clearly this is something which we are pleased to see. However, on reading the detail of the report we have some material concerns over its content. We believe that it is important to highlight these, as we do below, and that it is not in the interests of the LGPS for some of GAD's recommendations to be taken forward.

Our concerns relate to GAD's:

- lack of recognition of the LGPS's updated financial position and outlook;
- approach to engagement during the process;
- interpretation of consistency as applied to LGPS funding plans; and
- understanding of LGPS funding plans and expectation of how deficit recovery plans should be set.

We consider each of these areas in turn.

The LGPS Funding Position and Outlook

We believe that the LGPS's financial position has improved significantly over the last few years and, for most local authorities, we do not currently expect that monetary contributions will need to rise following the 2019 valuations (albeit the valuation date is still six months away so that cannot be guaranteed).

The Section 13 report is based on the position as at 31 March 2016. It does acknowledge the significant improvement in funding since 31 March 2013 (from 79% to 85% on average on prudent local bases and from 92% to 106% on average on GAD's best estimate market basis). However, despite being published 18 months after the 2016 valuations were signed off, the report does not acknowledge that the funding position would have been expected to increase further due to continuation of deficit contributions and due to the funds' strong asset performance since 2016. Instead, the report is largely focussed on highlighting perceived failures by Funds against a series of arguably rather arbitrary actuarial metrics, many of which focus on a single point when in fact there are a number of interrelated issues at play.

Our concerns are that readers (particularly lay readers) may conclude that:

- The LGPS is not being well managed from a funding perspective, with more than 20 amber or red flags being allocated.
- There will be significant employer contribution increases at the 2019 valuation based on GAD's asset liability modelling work (work which we believe goes beyond the remit and requirements of Section 13). Based on current financial conditions, this does not reflect what we expect will happen in reality and seems to emanate from GAD's assumption that contributions are set solely based on prevailing market conditions and gilt yields.

Engagement
We recognise that GAD do not carry out valuations of LGPS funds for funding purposes, so all four firms of actuarial advisers have invested considerable time and effort assisting GAD in their work preparing this report.

Our concerns are that:

- Very little of the extensive feedback that we provided has been reflected in the final approach and published report, and similarly for the feedback which has been provided by those clients consulted directly by GAD. It therefore seems to us that GAD have not taken fully into account how the LGPS is funded and how this differs from private sector schemes.
- The metrics are in our view too simplistic and could lead to incorrect/invalid conclusions. Whilst it is accepted that there is a balance to be struck between simplicity by applying metrics (where there is a risk of applying them rigidly despite them potentially offering limited insight) and a detailed bespoke analysis which would offer a more rounded view, in many cases, in our view, there hasn't been sufficient detailed engagement with the administering authority and Fund Actuary to understand local circumstances or the risk management measures already in place to mitigate the identified risks. Readers of the report will see the metrics used as a valid test (especially with the Red/Amber/Green classification used). This could influence funding behaviours in an effort to avoid a future red or amber flag and lead to lay readers drawing incorrect conclusions about the performance of a fund and its officers and committee. Ultimately this could result in actions being taken which are not in the best interests of the LGPS and/or individual funds.

We believe GAD should recognise more explicitly that these metrics are limited in nature and instead undertake a more holistic review of, and commentary on, funding plans with considerably more engagement with key stakeholders at individual funds.

Interpretation of consistency
We have no objection to GAD's recommendation in relation to presentational consistency (Recommendation 1) as long as any "template" reporting is provided in good time to be implemented and is mandatory (since some administering authorities may otherwise refuse to agree to any changes).

However, we fundamentally disagree with how GAD has approached what they call "evidential consistency": the wording in the Public Service Pensions Act is “not inconsistent” implying a focus on identifying outliers which is entirely logical for a review analysing and comparing local LGPS valuations. GAD has instead interpreted their role as requiring a comparison of individual assumptions (focusing on those used to calculate the past service funding level) and commenting on whether or not they are identical. Our concern is that readers will be given a completely false impression of what we understood to be the intentions of Section 13.

In addition, our concerns are that:

- There is very little commentary on the main output from a local LGPS funding valuation, i.e. the employer contributions payable. Given LGPS funds are open, ongoing and long term statutory schemes, the contributions payable are far more relevant and important than the assessment of the past service funding position (on which GAD has focused). We believe that there is far greater consistency in relation to employer contributions and the report as drafted will give readers a false impression of what is most important in the overall funding plan.
- GAD does not acknowledge that different assumptions and funding mechanisms are valid when setting employer contribution rates nor that this diversity in approach allows administering authorities to adopt the approach which maximises the chance that they meet their objectives in light of their appetite for risk and the specific circumstances of the Fund. Equally important, the Fund Actuary is required to have regard to the Funding Strategy Statement when carrying out the valuation. This is an administering authority document and administering authorities may appoint an adviser on the basis of the funding approach adopted. Our concern is that GAD's assertion that house views are responsible for the assumptions adopted for local valuations is misleading, ignores the administering authorities’ (and employers') key role within the valuation process and does not provide an appropriately balanced view.

In putting forward Recommendation 2, GAD has neither outlined what the benefits for the LGPS and its stakeholders would be, nor has it considered the potential downsides in terms of the reduced input from the administering authority into the funding process and the fundamental change in governance arrangements which would be involved. A change of this nature needs to be considered from a policy point of view with consultation with all stakeholders, rather than being introduced by the back door. We therefore do not agree with Recommendation 2 and believe that the Scheme Advisory Board should consider the feedback we provided to GAD before taking this recommendation forward.

In particular, we believe that a better focus for the Section 13 review would have been:

- consideration of the consistency of output of the valuation, i.e. employer contribution rates rather than focusing on certain individual assumptions used to calculate funding levels;
- commentary and analysis of the overall funding strategy and assumptions, including level of prudence, rather than a focus on individual assumptions in isolation; and

- a comparison of employer contribution rates against funding levels (assessed on a standardised funding basis), which would give a visual representation of the above two points and some insight into relative prudence of the overall funding approach for each fund.

How deficit recovery periods should be set

Deficit recovery periods can form an important part of the funding strategy, particularly where funding levels are low, but in practice are often not key drivers of the contribution plan. Our concern is that the application of a strict "rules-based" approach could potentially inadvertently lead to the wrong conclusions in cases where the funding plan overall is robust and meets the cost-efficiency requirements. In particular:

- A fund wishing to adopt a more prudent actuarial valuation basis may be reluctant to do so if the result is an increased deficit recovery period and hence a risk of triggering on this measure.
- A fund which feels it can sensibly afford to adopt a more risk-averse investment strategy may decide against doing so if it will give rise to a longer deficit recovery period.
- When deficit recovery periods are relatively short, there comes a point where seeking to shorten them further at every actuarial valuation may lead to increased volatility of contributions and therefore come into conflict with cost-efficiency.
- Funds/employers may fall foul of this trigger simply due to seeking to manage their budgets prudently within their financial constraints (e.g. paying increased contributions whilst it can afford them with a view to reducing them in future years when its financial position is tighter).
- GAD has interpreted CIPFA's guidance on deficit recovery periods to mean that these should have a fixed end date. However, as GAD has acknowledged, they were not part of discussions when the guidance was drawn up. During these discussions, we have already confirmed to GAD that a deficit recovery period was used to mean a number of years e.g. 20 years, so the intention was for funds to operate with a rolling recovery period which does not extend in the number of years. We are concerned that because GAD has a different interpretation of CIPFA's guidance, even if funds follow that guidance on our advice, they may still be flagged on this metric.

We think it would make more sense for the deficit recovery period not to be flagged in isolation, but for a more rounded view of the funding plan to be taken in the context of viewing whether a fund meets the cost-efficiency requirement. Rather than Recommendation 5, of the report, we would have preferred to have seen:

- the deficit recovery period at this and the previous valuation being noted; and
- a flag being raised only if it were felt that the cost-efficiency requirement was not being met overall.

We are disappointed that after so many months of discussions we are in a position to have to write this letter to you. However, we feel very strongly that it is important to ensure that the requirements of Section 13 can be met whilst recognising the positive steps taken by local authorities to date so it does not become the driver of LGPS funding plans to the detriment of the vast majority of well-managed LGPS Funds and the public perception of the LGPS. One of the great strengths of the LGPS is that it is funded, giving it a far greater degree of transparency and accountability particularly when compared with the other public service schemes. We would be more than happy to provide further input and gather further feedback from our administering authority clients if that would assist you in determining how best to respond to GAD's review.

Yours faithfully

Alison Murray FFA
Partner
For and on behalf of Aon

Graeme Muir FFA
Partner
For and on behalf of Barnett Waddingham

Catherine McFadyen FFA
Partner
For and on behalf of Hymans Robertson

Paul Middleman FIA
Partner
For and on behalf of Mercer

Report Title:	**Data Quality Exercise**
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 12 November 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager, Philip Boyton, Pension Administration Manager
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report provides Panel Members with an overview of The Pensions Regulator's requirements around data quality and accuracy.
2. It provides details of the findings from the first data quality exercise undertaken in line with the Regulator's guidance and reporting specifications.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Monitors the quality of data through future administration reports, and
ii) Recognises the importance placed upon the Scheme Manager (Administering Authority) in meeting the standards imposed by the Pensions Regulator.

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 Members have in the past been presented with details of the role that The Pensions Regulator (tPR) now has in overseeing Public Service Pension Schemes since the introduction of the Public Service Pensions Act 2013. All public service schemes, of which the LGPS is one, are required to keep specific data on members and beneficiaries and must be able to demonstrate that the data they hold is of the highest quality and standard.

2.2 tPR expects all UK pension schemes to measure the presence and accuracy of the data they hold and put plans in place to resolve discrepancies where they find them. tPR require an annual return to be completed so that they can track the progress of schemes as they incorporate the standards that tPR expect of all schemes. By measuring certain data tPR can determine behaviours which contribute to schemes being well run.

2.3 tPR expect Scheme Managers (Administering Authority) to measure data at least once a year and whilst enforcement action will not be taken on the basis of scores alone, tPR may, if they have concerns that legal requirements or certain standards are not being met, engage with Scheme Managers and take action where Scheme Managers fail to demonstrate that they are taking appropriate steps to improve their records.

2.4 There are two types of data that tPR monitor, Common Data and Scheme Specific Data (formerly known as Conditional Data). Common Data is a subset of member and beneficiary data as set out in regulations whereas scheme-specific data refers to the rest of the data a public service scheme needs to run a scheme i.e. the remaining member and transaction fields.

2.5 The tPR annual return measures data accuracy as well as the presence of data. tPR expects the Scheme Manager (Administering Authority) to understand the controls their scheme administrators have put in place to ensure the quality of data, have confidence that these are sufficient for the needs of the scheme and receive regular reports on the data.

2.6 As previously reported, the Pension Fund has signed an initial 3-year agreement with *heywood's*, the provider of the Pension Fund's administration software, to begin a data cleansing exercise to identify any data discrepancies. This exercise will be performed annually and will demonstrate to tPR how serious the Administering Authority is with regard to holding accurate data on behalf of its scheme members and beneficiaries.

2.7 This report sets out at Appendix the results of the first data quality exercise recently undertaken.

2.8 Action is already being taken to identify the means by which the data discrepancies identified can be corrected.

3 KEY IMPLICATIONS

3.1 The Scheme Manager (Administering Authority) is required by law to maintain the Royal County of Berkshire Pension Fund is accordance with the LGPS Regulations and all other associated legislation. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where it is deemed to have failed in areas of administration.

3.2 The Scheme Manager (Administering Authority) has a responsibility to manage the administration of the Scheme on behalf of all Scheme members ensuring that all aspects of administration are effective, efficient and that benefits are calculated accurately in accordance with the scheme regulations.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The 3-year contract entered into with *heywood's* is valued at a cost of £5,000 per annum although the Pension Fund negotiated the service for free for the first three years. tPR may impose fines ranging from a £400 fixed penalty to a varying daily escalating penalty from £50 to £10,000. The contract cost is deemed to be good value for money.

5 LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority in maintaining a Pension Fund.

6 RISK MANAGEMENT

6.1 Fines imposed by tPR can be severe not only financially but reputationally. This risk is kept to a minimum by taking the steps necessary to annually review member data ensuring that records are maintained to the highest standard possible.

7 POTENTIAL IMPACTS

7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in fines being imposed by tPR and a loss of confidence in the Scheme Manager (Administering Authority).

8 CONSULTATION

Not applicable.

9 TIMETABLE FOR IMPLEMENTATION

9.1 Data quality check to be undertaken annually each September from 2018 to 2020 and then reviewed.

10 APPENDICES

Appendix 1 – Overview and results of the September 2018 data quality exercise.

11 BACKGROUND DOCUMENTS

11.1 Public Service Pensions Act 2013
11.2 Local Government Pension Scheme Regulations 2013 (as amended)
11.3 tPR annual return.

12 CONSULTATION (MANDATORY)

Name of consultee	**Post held**	**Date issued for comment**	**Date returned with comments**
Cllr John Lenton	Chairman – Berkshire Pension Fund Panel		
Rob Stubbs	Section 151 Officer		

APPENDIX 1

LOCAL GOVERNMENT PENSION SCHEME
DATA QUALITY REPORT

This report is split into two sections, Common Data and Scheme Specific Data. In both cases a benchmark has been applied to the results based on the following categories and thresholds:

Category	Pass Threshold
Blue	Pass rate > = 98%
Green	95% <= Pass rate < 98%
Amber	90% <= Pass rate < 95%
Red	Pass rate < 90%

These benchmarks are illustrated in the background of the results graph.

1.0 COMMON DATA

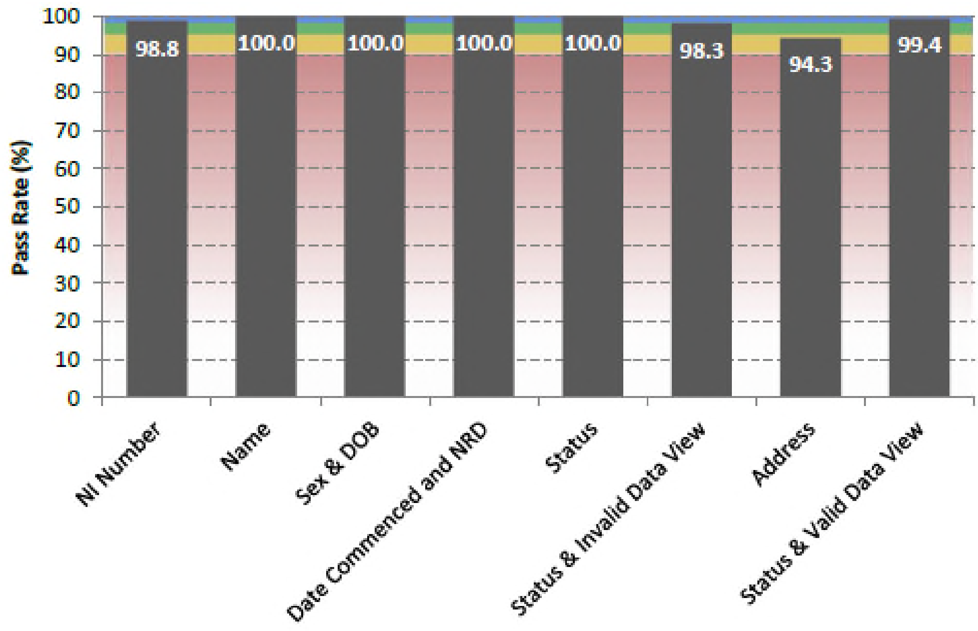
1.1 Common Data items

Common Data

In total there are 11 items of Common Data that all UK pension schemes are expected to hold for all their current and former scheme members.

Address	Last Status Event
Current Membership Status	NI Number
Date of Birth	Normal Pension Age
Date Pensionable Service Started	Postcode
Forename(s) or Initial(s)	Surname
Gender	

1.2 Summary of Common Data Results



1.3 Analysis

DATA ITEMS	TOTAL ITEMS	MEMBER RECORDS WITHOUT A SINGLE FAILURE
Conditions tested	701,192	-
Conditions passed	693,136	-
Conditions failed	8,056	-
Pass percentage	**98.85%**	**91.3%**

1.4 Data Correction Plan

CATEGORY	PRIORITY				
	Very high	High	Medium	Low	Total
NI Number	-	4	-	1010	**1014**
Name	-	29	-	-	**29**
Sex/ Date of Birth	-	12	-	-	**12**
Date Commenced and NRD	-	22	-	-	**22**
Status	-	-	-	-	**0**
Status and Invalid Data View	-	1488	-	-	**1488**
Address	-	-	4993	-	**4993**
Status and Valid Data View	10	-	-	488	**498**
Total	**10**	**1555**	**4993**	**1498**	**8056**

2.0 SCHEME SPECIFIC DATA

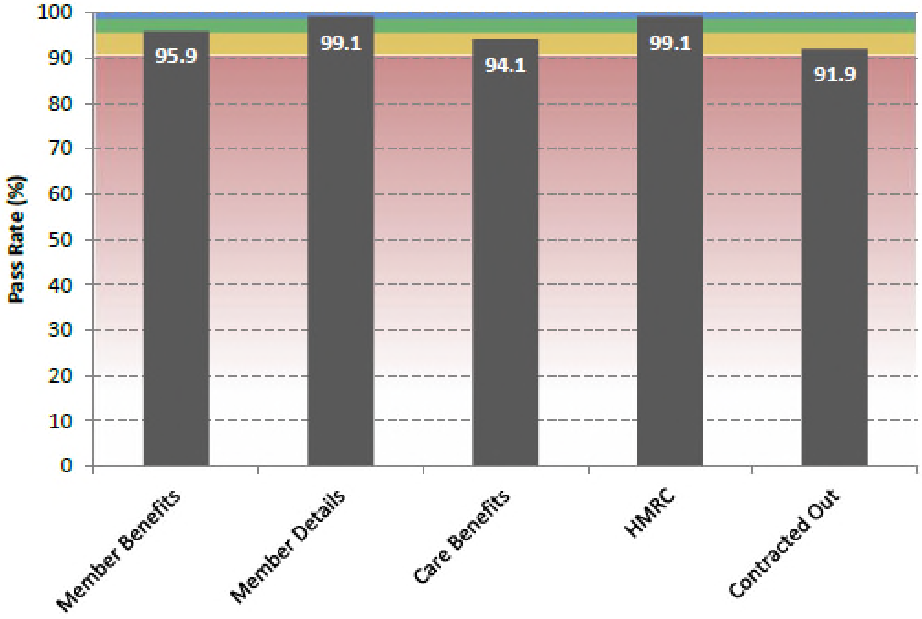
2.1 Common Data items

Scheme Specific Data

In total there are 60 items of Scheme Specific Data that tPR are measuring across all Local Government Pension Funds. A selection of these items is provided below.

Annual Allowance	Post 1 April 2014 Career Pay
Date Contracted Out	Post 1 April 2014 Career Pay Revaluation
Date Joined Scheme	Pre 6 April 1988 Guaranteed Minimum Pension (GMP)
Date of Leaving	Post 6 April 1988 Guaranteed Minimum Pension (GMP)
Employee and Employer Additional Pension Contributions History	Scheme Year Benefit Crystallisation Event
Employee and Employer Basic Pension Contributions History	Total Original Deferred Benefit
Employer Name	Tranches of Original Deferred Benefit
Lifetime Allowance	Total Gross Annual Pension
Membership History	Tranches of Total Gross Annual Pension
NI Contributions/ Earnings History	Total Gross Dependant Annual Pension
Pension Sharing Order (PSO)	Tranches of Total Gross Dependant Annual Pension
Pre 1 April 2014 Final Pay	Transfer In Details

2.2 Summary of Scheme Specific Data Results



2.3 Analysis

DATA ITEMS	TOTAL ITEMS	MEMBER RECORDS WITHOUT A SINGLE FAILURE
Conditions tested	825,702	-
Conditions passed	805,339	-
Conditions failed	20,011	-
Pass percentage	**97.58%**	**86.1%**

2.4 Data Correction Plan

CATEGORY	PRIORITY				
	Very high	High	Medium	Low	Total
Member Benefits	3690	484	-	-	**4174**
Member Details	400	3861	-	131	**4392**
CARE Benefits	-	2378	-	-	**2378**
HMRC	-	339	367	33	**739**
Contracted Out	-	4344	3984	-	**8328**
Total	**4090**	**11406**	**4351**	**164**	**20011**

Report Title:	**Administration Report**
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 12 November 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager, Philip Boyton, Pension Administration Manager
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report deals with the administration of the Pension Fund for the period 1 July 2018 to 30 September 2018
2. It recommends that Members (and Pension Board representatives) note the Key Administrative Indicators throughout the attached report.
3. Good governance requires all aspects of the Pension Fund to be reviewed by the Administering Authority on a regular basis
4. There are no financial implications for RBWM in this report

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

- **All areas of governance and administration as reported**
- **All key performance indicators**

Please note that Administration Reports are provided to each quarter end date (30 June, 30 September, 31 December and 31 March) and presented at each Panel meeting subsequent to those dates.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

The Pension Panels have a duty in securing compliance with all governance and administration issues.

3. KEY IMPLICATIONS

Failure to fulfil the role and purpose of the Administering Authority could lead to the Pension Fund and the Administering Authority being open to challenge and intervention by the Pensions Regulator.

4. FINANCIAL DETAILS / VALUE FOR MONEY

Not applicable.

5. LEGAL IMPLICATIONS

None.

6. RISK MANAGEMENT

None.

7. POTENTIAL IMPACTS

None.

8. CONSULTATION

Not applicable.

9. TIMETABLE FOR IMPLEMENTATION

Not applicable.

10. APPENDICES

None.

11. BACKGROUND DOCUMENTS

None.

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr. John Lenton	Chairman – Berkshire Pension Fund Panel		
Rob Stubbs	Section 151 Officer		

ADMINISTRATION REPORT

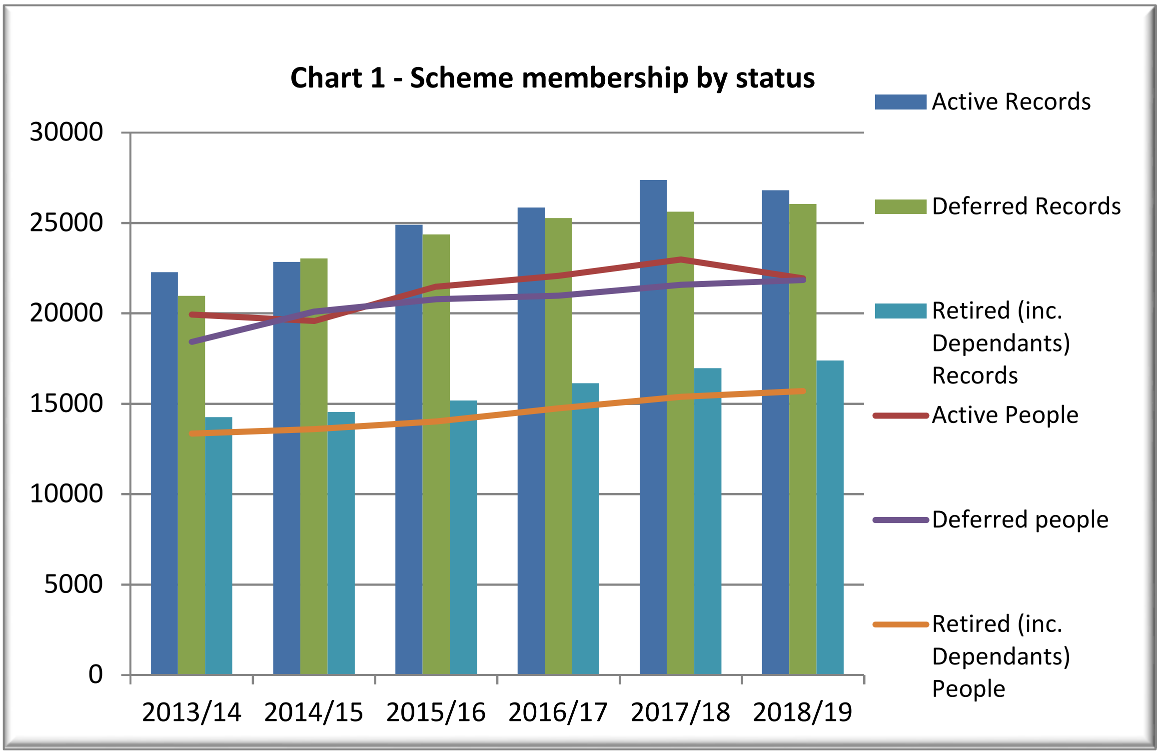
QUARTER 2 – 2018/19

1 July 2018 to 30 September 2018

Contents

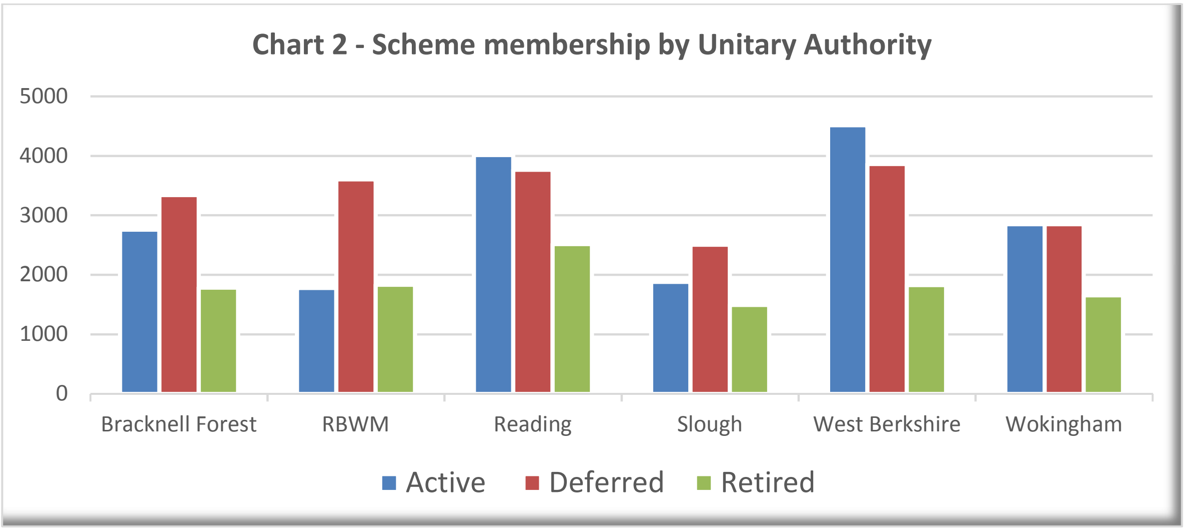
1. ADMINISTRATION

1.1 Scheme Membership



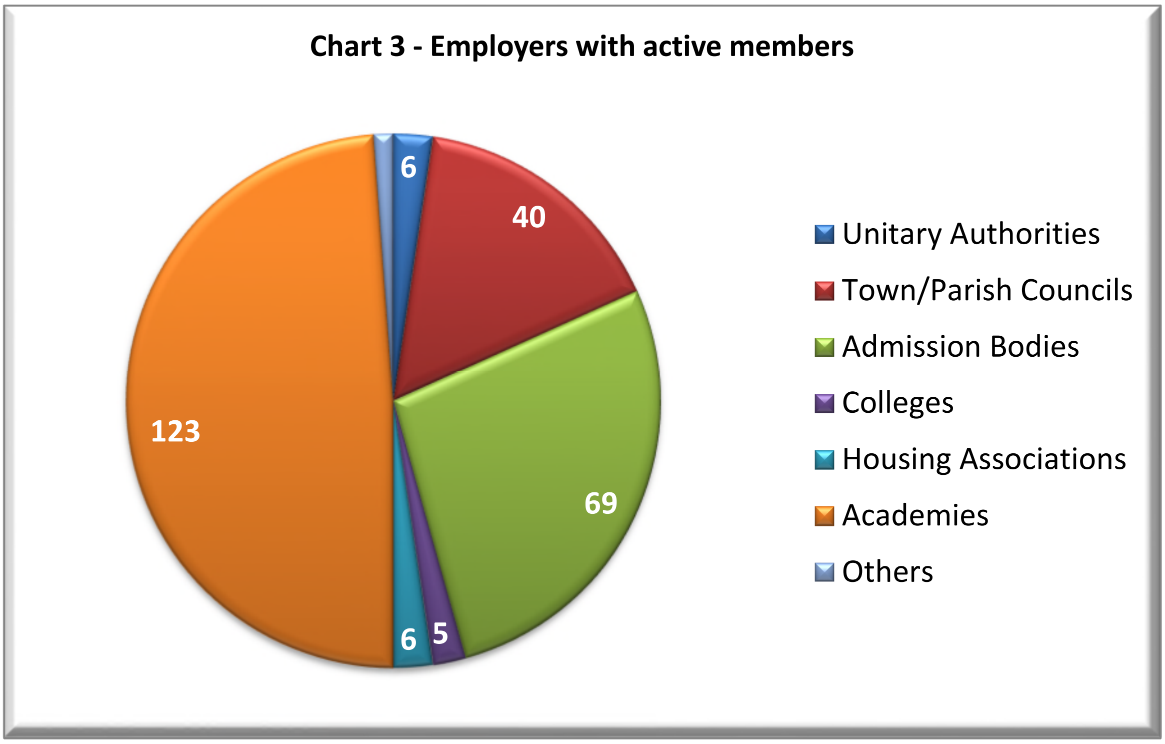
TOTAL MEMBERSHIP			
Active Records	26,811	Active People	21,935
Deferred Records	26,046	Deferred People	21,838
Retired Records	17,380	Retired People	15,702
TOTAL	**70,237**	**TOTAL**	**59,475**

1.2 Membership by Employer



Membership movements in this Quarter *(and previous Quarter)*						
	Bracknell	RBWM	Reading	Slough	W Berks	Wokingham
Active	**+105** *-10*	**-97** *-8*	**-397** *-2*	**-147** *+39*	**-317** *+37*	**+24** *-206*
Deferred	**-4** *-2*	**-25** *-17*	**-66** *-25*	**-100** *-21*	**+7** *-15*	**+114** *-12*
Retired	**+42** *+16*	**+29** *+10*	**+36** *-9*	**-10** *-11*	**+38** *+11*	**+21** *+15*

1.3 Scheme Employers

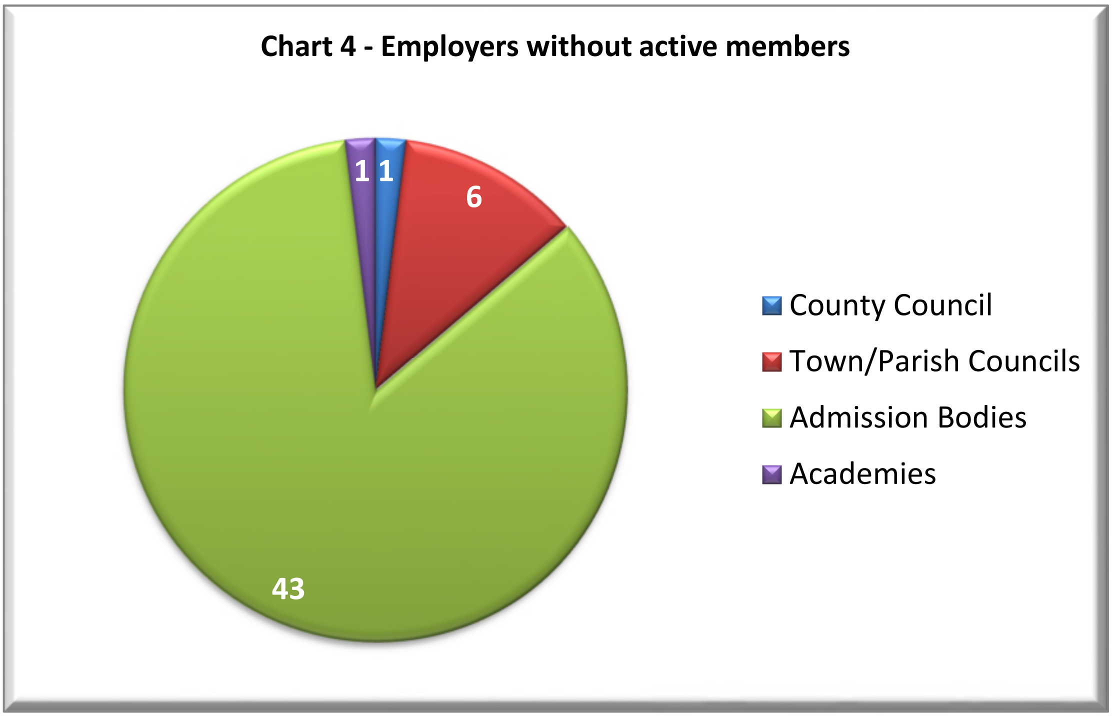


New employers since last report:

Admission Bodies: Sports & Leisure Management (SLM) x 3 (Bracknell Forest Leisure Services), Accent Catering Services Ltd (catering staff at Parlaunt Park school), Brighter Futures for Children (Children's Services Reading)

Academies: White Horse Federation Trust, Achievement for All Education Trust, King's Academy Binfield

Town/Parish Councils: None



Exiting employers: None

1.4 Scheme Employer Key Performance Indicators

Table 1A – i-Connect users Quarters 2 (1 July to 30 September 2018)						
Employer	**Starters**	**Leavers**	**Changes**	**Total**	**Errors**	**Achieved**
RBWM	203	109	475	787	29	96.3151%
Reading BC	389	231	1769	2389	28	98.8280%
W Berkshire	259	184	614	1057	37	96.4995%
Academies	395	98	814	1307	117	91.0482%
Colleges	52	17	512	581	21	96.3855%
Others	35	12	73	120	9	92.5000%
Totals	1334	651	4257	6242	241	96.1391%

NOTES: Table 1A above shows all transactions through i-Connect for the first quarter of 2018/19. Changes include hours/weeks updates, address amendments and basic details updates.

The benefits of i-Connect are:

- Pension records are maintained in 'real-time';
- Scheme members are presented with the most up to date and accurate information through *mypension* ONLINE (Member self-service);
- Pension administration data matches employer payroll data;
- Discrepancies are dealt with as they arise each month;
- Employers are not required to complete year end returns;
- Manual completion of forms and input of data onto systems is eradicated removing the risk of human error.

Exception report – less than 90% achieved

None

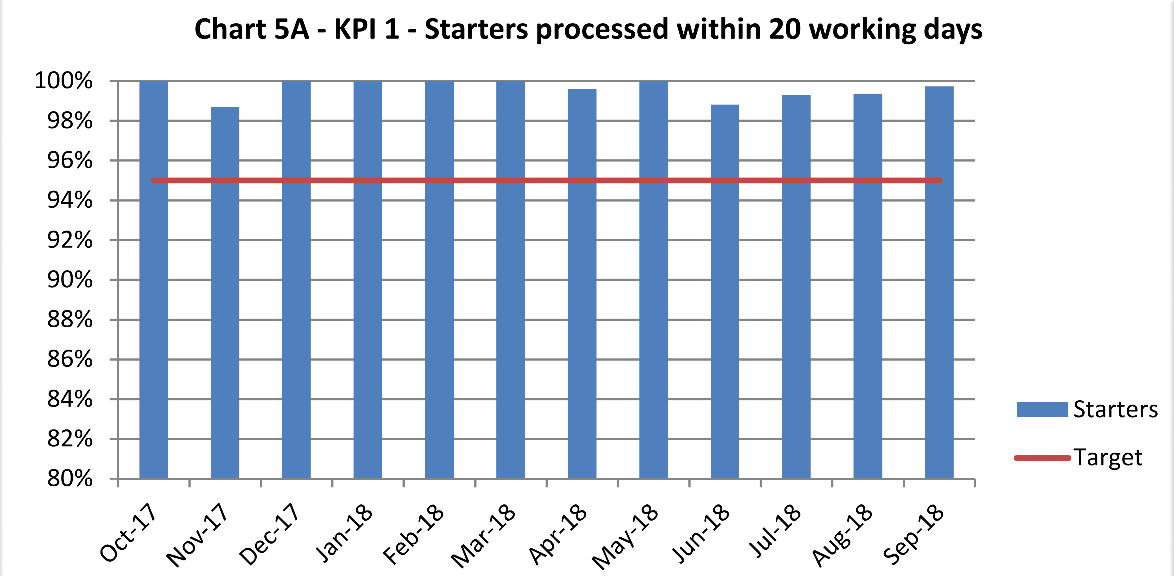
Table 1B Non i-Connect users Quarter 2 (1 July to 30 September 2018)					Trend		
Employer	**Starters**	**Leavers**	**Total**	**This Quarter**	**Quarter <1**	**Quarter <2**	**Quarter <3**
	In/Out	**In/Out**					
Bracknell	76/170	74/45	150/215	**41.10%**	38.05%	45.73%	78.10%
RBWM	0/8	68/57	68/65	**51.13%**	11.11%	23.91%	59.38%
Reading	0/0	25/391	25/391	**6.01%**	18.75%	50.94%	27.27%
Slough	67/43	40/40	107/83	**56.32%**	51.97%	62.50%	78.05%
W Berkshire	0/4	14/205	14/209	**6.28%**	24.62%	48.61%	9.84%
Wokingham	0/1	34/53	34/54	**38.64%**	19.64%	63.16%	55.00%
WBC Schs.	2/36	19/317	21/353	**5.61%**	6.29%	15.42%	1.52%
Academies	48/268	169/167	217/435	**33.28%**	18.35%	24.72%	42.47%
Colleges	5/13	9/10	14/23	**37.84%**	8.06%	27.27%	36.67%
Others	19/32	57/73	76/105	**41.99%**	27.78%	40.38%	57.89%
Totals	**217/575**	**509/1358**	**726/1933**	**27.30%**	**19.33%**	**35.41%**	**45.18%**

NOTES: Some employers listed in Table 8B above will also be listed in Table 8A. This is because not all employees of a scheme employer are paid through the scheme employer's payroll e.g. some non-teaching staff at Local Authority maintained schools may be paid via a third party payroll provider which is not an i-Connect user although those individuals are employees of the relevant Unitary Authority.

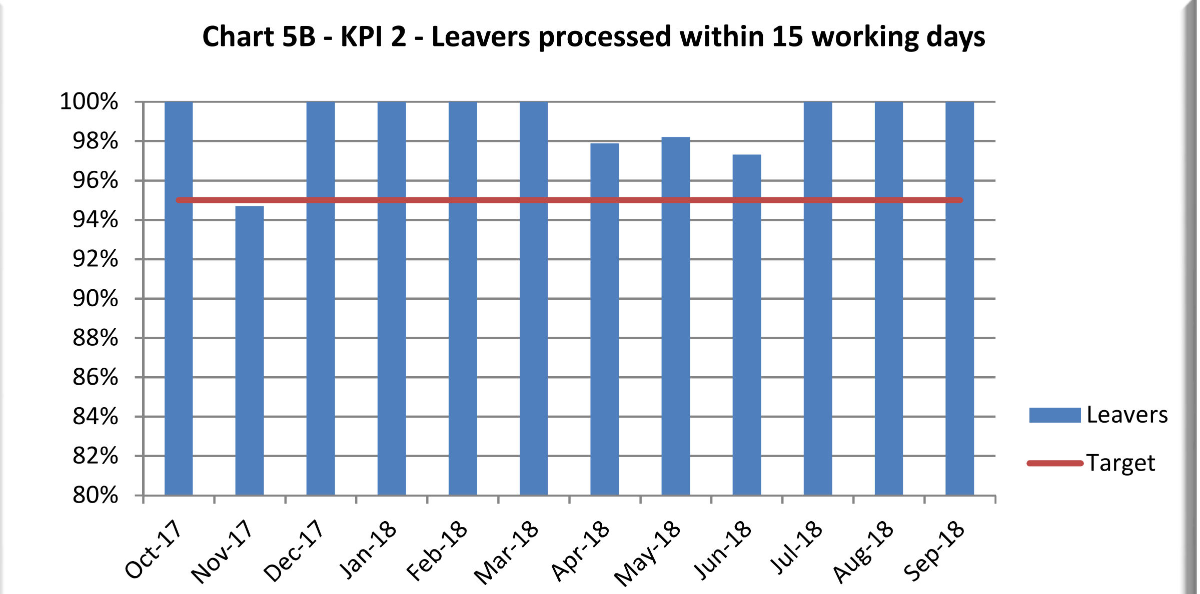
Details of starters and leavers only are recorded by the team. Other pension record changes may or may not have been received by the Pension Fund via payroll or from the scheme member direct. Experience tends to show that individuals may notify payroll of certain data changes but not always pensions and that payroll may not always forward information to the pension team.

Many missing data items are found through the year-end process which can be a long, labour intensive exercise for both the Pension Fund and the scheme employer. Employers using i-Connect do not have a year-end process to deal with as all data is uploaded and verified on a monthly basis.

1.5 Key Performance Indicators

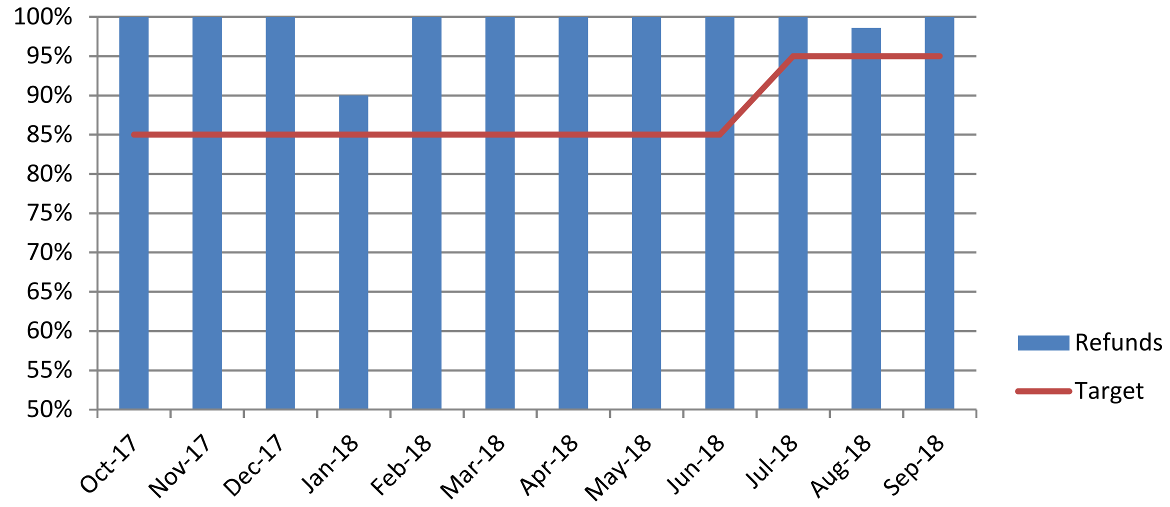


	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Starters	100	98.68	100	100	100	100	99.6	100	98.8	99.29	99.35	99.73
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	208	380	174	753	979	732	454	340	421	848	462	364



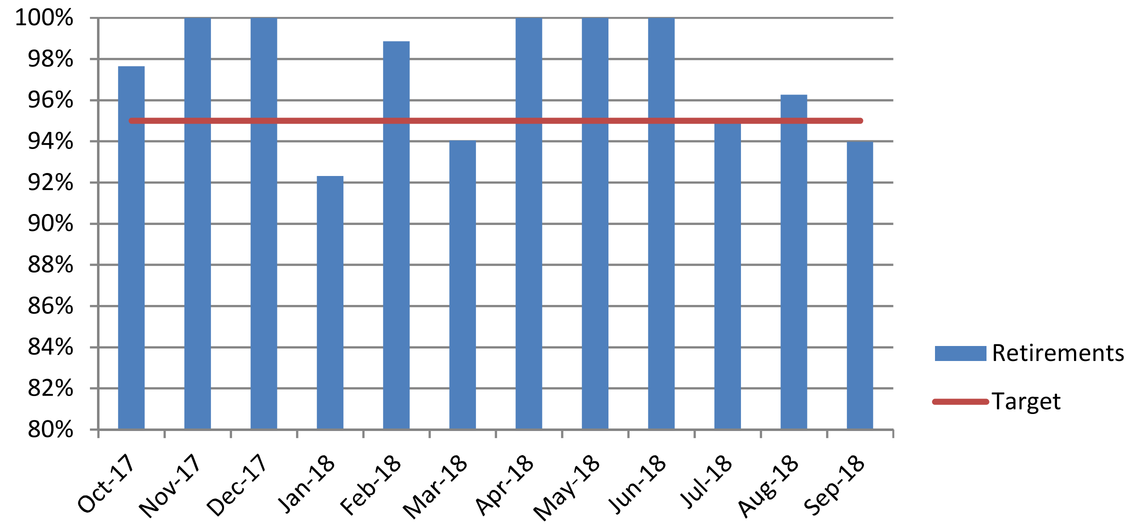
	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Leavers	100	94.69	100	100	100	100	97.87	98.2	97.3	100	100	100
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	466	452	216	476	504	374	367	320	389	458	548	635

**Chart 5C - KPI 3 - Transfers out Oct 17 to Jun 18
Refunds Jul 18 to Sep 18 - processed within 15 working days**



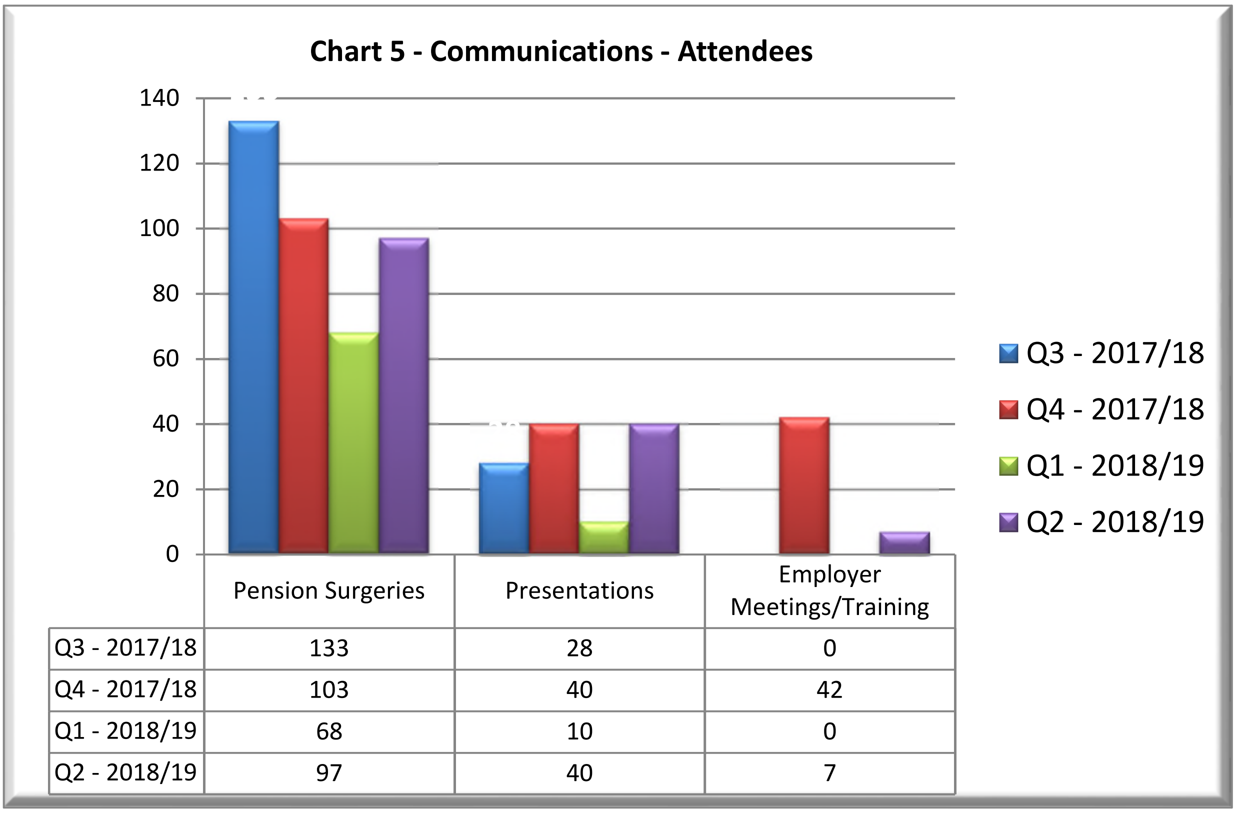
	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Refunds	100	100	100	90	100	100	100	100	100	100	98.59	100
Target	85	85	85	85	85	85	85	85	85	95	95	95
Total	5	6	3	6	5	1	2	2	2	46	71	116

Chart 5D - KPI 4 - Retirements processed within 5 working days



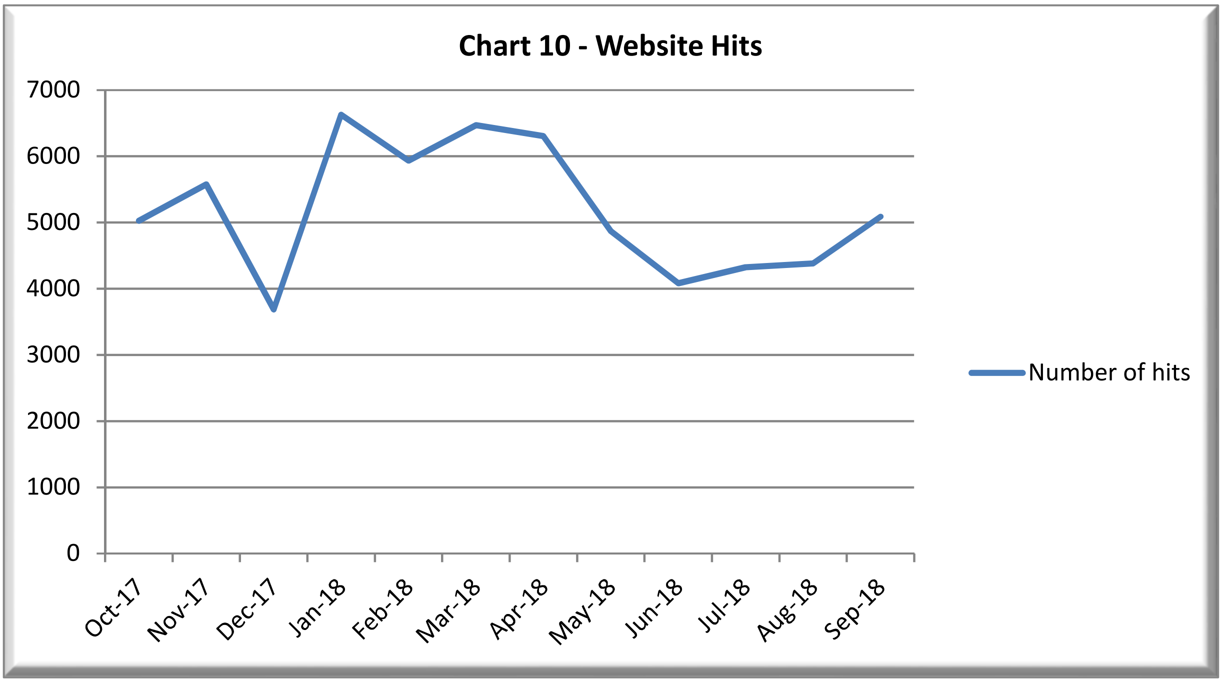
	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Retirements	97.64	100	100	92.31	98.86	94.03	100	100	100	95.1	96.26	93.97
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	127	89	69	91	88	67	89	76	72	102	107	116

1.6 Communications



	Pension Surgeries	Presentations	Employer Meetings/Training
Q3 - 2017/18	133	28	0
Q4 - 2017/18	103	40	42
Q1 - 2018/19	68	10	0
Q2 - 2018/19	97	40	7

1.7 Website Hits



1.8 Stakeholder Feedback

As part of the Pension Fund's aim to achieve Pension Administration Standards Association (PASA) accreditation it is a requirement to report to Members the comments and complaints received from scheme employers and their scheme members on a periodic basis. There is no feedback to report during this period.

2 SPECIAL PROJECTS

2.1 i-Connect Update

Efforts continue to be made by officers to bring on board the two remaining unitary authorities (Bracknell Forest Council and Slough Borough Council) yet to adopt i-connect.

Bracknell Forest Council – Recognise a change to their internal processes is required to avoid a repeat of the high number of queries needing to be resolved during Year End 2017 processing. They did aim to begin implementation during June 2018 but Year End 2018 processing is still ongoing due to problems submitting their file to the Administration Team in the specified format.

Slough Borough Council – Still experiencing difficulties with their Agresso Payroll System which once resolved will result in the implementation of i-connect.

Overall there are currently 49 scheme employers submitting monthly data to the Administration Team using i-connect. This represents 53% of the current total active scheme membership.

2.2 Year End 2018

Officers successfully issued Annual Benefit Statements to 98% of scheme members across all participating 257 scheme employers by the statutory deadline of 31 August 2018.

The 2% shortfall mainly refers to scheme members employed by Reading Borough Council, Royal Borough of Windsor & Maidenhead and West Berkshire Council. Although these scheme employers always provided Officers with a monthly i-connect file throughout the 2017/2018 scheme year they were not always pro-active to confirm the reason why certain scheme members were omitted from the given month's i-connect file i.e. casual workers. Officers are working with the respective Payroll Teams to ensure the problem is not encountered again.

2.3 GMP Reconciliation

With the removal of the contracted-out nature of public service pension schemes the Pension Fund entered into a period of reconciliation against DWP records to ensure that the correct GMP (Guaranteed Minimum Pension) values are held by the Pension Fund for Pensioner and Dependant scheme members. Officers successfully completed the priority reconciliation and correction of Pensioner and Dependant scheme member benefits during February 2018. This process is now followed by Officers ensuring that the correct GMP values are held for Active and Deferred scheme members.

The deadline by when all Pension Funds must complete their reconciliation of all scheme member records is 31 December 2018. Despite Pension Funds having had since April 2016 to complete this exercise the Local Government Association (LGA) has confirmed many Pension Funds are only now starting to focus their attention on it. Officers are therefore waiting longer to receive a reply to queries raised with HM Revenue & Customs in respect of Active and Deferred scheme members than was experienced for Pensioner and Dependant scheme members.

2.4 Data Quality Exercise

The Pensions Regulator (tPR) expects all UK pension schemes to measure the presence and accuracy of the data they hold, and put plans in place to resolve issues where they find them.

tPR require two types of data to be monitored – Common Data and Scheme Specific Data (formerly known as Conditional Data). Officers understand data improvement is a continuous process and not just a one-off exercise and so recently signed an initial three year agreement with *heywood's*, the provider of the Pension Fund's *altair* pension administration software to begin a cleanse of the data. The results of the first data cleanse were received in October 2018 with the following percentage scores provided to Officers:

Data Item	Pass rate	Member records without a single failure
Common	98.85%	91.3%
Scheme Specific	97.58%	86.1%

Officers understand these percentage scores to be better than those of neighbouring Pension Funds, of similar membership size, totalling around 70,000 records.

Officers have reviewed the findings and are already taking action to resolve the data discrepancies found some of which will be resolved in bulk by running a programme across the data set, others will require manual update. Officers have also taken the initiative to write and run bespoke reports in *altair* to identify where 'quick wins' can be achieved again with corrections already taking place. Whilst the main data quality exercise will be performed by *heywood's* annually, Officers will run the reports they have written on a monthly basis and report back to Members quarterly as part of this administration report.

2.5 *PASA*

Accreditation has been applied for with Officers originally due to meet with representatives of PASA on Monday, 14 and Tuesday, 15 May. Unfortunately PASA replied to the questionnaire provided by Officers that highlighted several areas requiring verification and suggested improvements. These suggestions are being considered by Officers with improvements being made where appropriate. Once in place a meeting will take place with representatives of PASA.

2.6 *Wokingham Schools - Selima*

The Pension Fund has completed the initial data matching exercise in respect of scheme members employed at Wokingham Borough Council (WBC) maintained schools. All 2017 Annual Benefit Statements are available to all scheme members via *mypensionONLINE* with paper copies having been distributed for all active scheme members at a meeting with the respective School Business Managers on 27 June 2018.

All 2018 Annual Benefit Statements were made available to scheme members ahead of the 31 August 2018 deadline through *mypensionONLINE*. Papers copies will again be distributed at a meeting of the School Business Managers on 22 November 2018.

The action taken to date represents a massive step forward whilst recognising that further work is still required to bring up to date a number of historical records dating back to when Wokingham BC first outsourced its schools payroll to Selima. These concern non-active members of the scheme (those who no longer contribute but have in the past). For example a number of 'missing' records have been identified that require both a starter and a leaver form to be provided by Selima. These records will need to be set up on the pension administration system with the individuals concerned being provided with the pension options available to them.

The aim is to have all of the data matching work completed by the end of 2018 or early into 2019 at the latest. Wokingham BC's contract with Selima runs out on 31 March 2019 and as part of their re-tendering exercise Wokingham BC have included in their procurement documents a requirement for i-Connect to be implemented as part of any future payroll contract with a third party provider.

It should be noted that Wokingham's in-house payroll has already on-boarded i-Connect and so, if a decision is taken to bring the schools payroll back in-house from 1 April 2019, i-Connect will be implemented without delay.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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