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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Agenda for a meeting of the West Yorkshire Pension Fund Pension Board to be held remotely on Tuesday, 23 June 2020 at 10.30am, or on the rising of the earlier meeting of the Board, whichever is the later.

NB: The meeting postponed on 24 March 2020 will commence at 10.00am on 23 June 2020.

Members of the Committee

Employer Representatives	Member Representatives
Councillor S Lal (Chair) – Bradford	**Mr G Nesbitt – GMB**
Councillor D Jenkins– Leeds	**Mr M Binks – Unison**
Councillor M Johnson – Wakefield	**Mr C Sykes – Unison**
Ms R Manning - Employer	**Mr M Morris - Unite**

Notes:

- Please note that, under the current circumstances we are unable to produce any paper copies. A webcast of the meeting will be available to view live on the Council's website at https://bradford.public-i.tv/core/portal/home and later as a recording

- Any Councillors or members of the public who wish to make a contribution at the meeting are asked to email jane.lythgow@bradford.gov.uk by **10.30 on Friday 19 June 2020** and request to do so. In advance of the meeting those requesting to participate will be advised if their proposed contribution can be facilitated and those participants that can be will be provided with details how to electronically access the meeting. Councillors and members of the public with queries regarding making representations to the meeting please email Jane Lythgow.

- Approximately 15 minutes before the start time of the meeting the Governance Officer will set up the electronic conference arrangements initially in private and bring into the conference facility the Director, West Yorkshire Pension Fund and Members so that any issues can be raised before the start of the meeting. The officers presenting the reports at the meeting will have been advised by the Governance Officer of their participation and will be brought into the electronic meeting at the appropriate time.

From:
Parveen Akhtar
City Solicitor
Agenda Contact: Jane Lythgow
Phone: 01274 432270
E-Mail: jane.lythgow@bradford.gov.uk

To:

A. PROCEDURAL ITEMS

1. DISCLOSURES OF INTEREST

(Members Code of Conduct - Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

(1) Members may remain in the meeting and take part fully in discussion and voting unless the interest is a disclosable pecuniary interest or an interest which the Member feels would call into question their compliance with the wider principles set out in the Code of Conduct. Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.

(2) Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.

(3) Members are also welcome to disclose interests which are not disclosable pecuniary interests but which they consider should be made in the interest of clarity.

(4) Officers must disclose interests in accordance with Council Standing Order 44.

2. INSPECTION OF REPORTS AND BACKGROUND PAPERS

(Access to Information Procedure Rules – Part 3B of the Constitution)

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is refused, there is a right of appeal to this meeting.

Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Jane Lythgow - 01274 432270)

B. BUSINESS ITEMS

3. IMPACT OF COVID-19 ON WYPF PENSIONS ADMINISTRATION 1 - 16

The report of the Director, West Yorkshire Pension Fund **(Document "A")** informs Members of the impact of COVID-19 on West Yorkshire Pension Fund's (WYPF) pensions administration.

Recommended –

That the report be noted.

(Yunus Gajra – 01274 434343)

4. FUNDING STRATEGY STATEMENT CONSULTATION 17 - 62

The report of the Director, West Yorkshire Pension Fund, (**Document "B**") updates the Local Pension Board on the recent consultation on the Funding Strategy to incorporate the Fund's approach to the refund of exit credits and to allow new employer admissions to be on a pass through basis.

Members are requested to comment on the amendments they would wish the Joint Advisory Group to consider.

(Tracy Weaver – 01274 433571)

5. REGISTER OF BREACHES OF LAW 63 - 72

The Director, West Yorkshire Pension Fund, will present a report (**Document "C**") which informs Members that, in accordance with the Public Service Pensions Act 2013, from April 2015 all Public Service Pension Schemes come under the remit of the Pensions Regulator.

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement to report a matter to the Pensions Regulator as soon as it is reasonably practicable where that person has reason to believe that:

(a) A legal duty relating to the administration of the scheme has not been or is not being complied with, and
(b) The failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

A register of any Breaches of Law is, therefore, maintained in accordance with the Pensions Regulators requirements and WYPF Breaches Procedure.

Recommended –

That the entries on the Register of Breaches of Law be noted.

(Caroline Blackburn – 01274 434523)

6. LOCAL GOVERNMENT PENSION SCHEME UPDATES AND OVERRIDING PENSIONS LEGISLATION 73 - 78

The report of the Director, West Yorkshire Pension Fund, (**Document "D**") updates the Local Pension Board on changes to the Local Government Pension Scheme (LGPS) 2014 and provides information on associated matters.

Recommended –

That the report be noted.

(Tracy Weaver - 01274 433571)

7. SERVICE BUDGETS 79 - 86

The report of the Director, West Yorkshire Pension Fund, (**Document "E**") reminds Members that, in accordance with Local Government Pension Scheme Regulations, costs of managing LGPS pension funds must be charged to pension fund accounts and not to local authorities' general fund accounts.

It is confirmed, in Document "E" that the cost of services reported will be charged to WYPF accounts. The budgets in the report will deliver pension administration services to over 430,000 pension scheme members, made up of 293,000 WYPF and 126,000 shared service partner members. The fund supports over 800 active employers. The same resource will be used to manage over £13bn WYPF investment assets.

Recommended –

1. **That the total service budget of £14.85m approved for 2020/21 by the Joint Advisory in January 2020 be noted.**
2. **That the total pension cost per member of £34.46 for 2018/19 (2017/18 £36.45) making WYPF the lowest cost LGPS scheme for 2018/19 be noted.**

(Ola Ajala – 01274 434534)

8. TRAINING, CONFERENCES AND SEMINARS 87 - 90

Members are reminded that training to understand their responsibilities and the issues they will be dealing with is a very high priority.

The report of the Director, West Yorkshire Pension Fund, (**Document "F**") informs Members of training courses, conferences and seminars which may be of assistance.

Recommended -

That consideration is given by Board Members to the events in Section 1 and Members note the requirement to complete the Pension Regulators toolkit training.

(Caroline Blackburn – 01274 434523)

9. EXCLUSION OF THE PUBLIC

Members are asked to consider if the **Not for Publication** Appendix to **Document "G**" relating to the West Yorkshire Pension Fund Investment Advisory Panel should be considered in the absence of the public and, if so, to approve the following recommendation:-

Recommended –

That the public be excluded from the meeting during consideration of the Not for Publication Appendix to Document "G" relating to the notes of a West Yorkshire Pension Fund Investment Advisory Panel briefing meeting held on 30 April 2020 because information would be disclosed which is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

10. NOTES OF A BRIEFING MEETING OF THE WEST YORKSHIRE PENSION FUND INVESTMENT ADVISORY PANEL ON 30 APRIL 2020 91 - 92

The report of the Director, West Yorkshire Pension Fund, (**Document "G** – containing a **Not Publication Appendix**) reminds Members that the role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The Investment Advisory Panel (IAP) scheduled for 21 April 2020 was cancelled. The **Not for Publication** notes of a briefing meeting of WYPF IAP, attended by the Chair and Deputy Chair, are appended to Document "G". The notes are submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Members are requested to note that the Investment Advisory Panel meeting of 21 April 2020 was cancelled and review the Not for Publication notes of the Investment Advisory Panel briefing attended by the Chair and Deputy on 30 April 2020 appended to Document "G".

(Rodney Barton – 01274 432317)

City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

A

Subject: Impact of Covid-19 on WYPF Pensions Administration

Summary statement:

The impact of Covid-19 has meant that WYPF has had to instigate its business continuity plans, and provide business as usual remotely. Arrangements had to be made at very short notice to enable staff to work from home and make decisions on priority work areas, taking into account statutory requirements and the Pensions Regulator (tPR) guidance.

Appendix A – COVID-19 FAQs for LGPS administrators

Recommendations

- That this report be noted.

Rodney Barton
Director

Portfolio

Report Contact: Yunus Gajra
Phone: (01274) 434343
Email:Yunus.gajra@bradford.gov.uk

Overview & Scrutiny Area

1. Background

1.1 On 23 March the prime Minister asked that everyone stay at home except for a few restricted activities one of which was:

‘Travelling to and from work, but only where work absolutely cannot be done from home’.

1.2 Previously the Government published a list of key workers who are critical to the Covid-19 response. These include local government administrative staff ‘delivering essential public services such as the payment of benefits’.

1.3 WYPF made a decision that staff were key workers and were asked to attend the office if they were not able to work from home.

1.4 However, urgent negotiations commenced with Bradford Council’s IT to procure remote working equipment for the bulk of the staff that could not work from home, and within a matter of a couple of weeks almost all staff were enabled to work remotely.

1.5 Staff now only attend the office on a needs basis, i.e. to print, to scan post etc. Alternative arrangements for these tasks are now also in place.

1.6 After a short period of downtime for some individual members of staff who may have been self isolating or had childcare issues when schools closed, it is now almost business as usual.

2. Service priorities

2.1 The Pension Regulator’s advice applicable to DB schemes for administrators recommends that the focus of service delivery at this time should be on the following areas:

- Payment of benefits
- Employer contributions
- Minimising the risk of scams
- Supporting good decision making.

2.2 tPR also provided some comfort to administrators by recognising that some administrative breaches may occur at this time but they will maintain a ‘proportionate and fair approach’ to any action to take.

2.3 Payroll
We have tested and proved that our payroll can be run by members of staff working from home if necessary. However, we have made one change which is that our daily payroll will now be run weekly each Friday (or the Thursday if it’s a bank holiday).

2.4 Transfer Values
The processing of transfers is a second level priority. Club transfers and transfers

from schemes with a guarantee date will be processed although it might be more slowly.

2.5 Transfers in

Transfers in from personal pensions i.e. money purchase or defined contribution (DC) schemes are more of a concern as investment values are likely to have dropped in the period between receiving the member's election forms and requesting the money.

We are currently investigating with some of the bigger personal pension providers what their view is on proceeding in these circumstances and what the members' options might be. When we have more information on this we will write to affected members in line with the TPRs direction to support good decision making.

2.6 Transfers Out

We are aware that unscrupulous financial advisers may still try to target firefighters to release benefits. We have therefore added the tPR's latest guidance on scams to our website and briefed both the Contact Centre and Fire Team staff on these issues.

2.7 Children's Pensions

Because schools, colleges and universities have closed, we will continue to pay children's pensions where we know students are only part-way through a course.

For students who we know are in their last year of school, we would ask them as normal if they intend to go on to further study. If they say they are intending to continue their studies we will continue to pay their pension as normal (this is usual practice). For college or university students who we know are in their final year of study, we will suspend the pension as normal in June.

2.8 Life certificates

We will shortly be re-starting the life certificate exercise, which was temporarily suspended due to the need for pensioners to obtain witness signatures on their return form. This was to aid social distancing and isolation for the elderly.

2.9 Deferred Benefit Statements (DBS)

The number of Deferred Benefit Statements produced for all Local Government clients currently stands at 2624 which represents 62% of members eligible to receive one. The number of statements produced each day was initially reduced from 2,000 to 500 each day. Now that working arrangements are more settled the limit has been increased to 1000 per day.

2.10 Annual Benefit Statements (ABS)

The number of Annual Benefit Statements produced for all Local Government clients currently stands at 33% of members eligible to receive one. The low volume is largely due to the fact that the annual return for Hounslow is still to be posted to members records. Similar to DBS's, the number of statements produced each day was initially reduced from 2,000 to 500 each day. Now that working arrangements are more settled the limit has been increased to 1000 per day.

2.11 Remote Working

The arrangements for staff working remotely are operating well, with staff being able to do their normal work without any major issues. In line with Government advice, the arrangements are set to continue for the foreseeable future.

3.0 Local Government Association

3.1 The LGA has produced a frequently asked questions factsheet for LGPS Administrators which answers a number of questions that administrators may have, which is attached as Appendix 1 for information.

3.2 LGPS Resilience survey

LGA have undertaken an LGPS COVID-19 resilience survey. Nearly 80% of administering authorities in England & Wales and Scotland completed the survey between 24 March and 6 April 2020. The results show a high level of confidence in the ability to continue to pay more than 1.5 million LGPS pensions. Responses show that a minority of employers are in current difficulties and that there are some concerns about accessing the information required to pay new benefits.

It is to the credit of those authorities that they not only responded so promptly to the survey, but are able to respond so effectively to the challenges they face at the current time. The survey also asked for ideas for additions to the FAQs mentioned in 3.1. Those suggestions that are not already present are under active review. All points raised about regulatory flexibility have been raised with MHCLG and/or tPR.

Recommendations

- That this report be noted.

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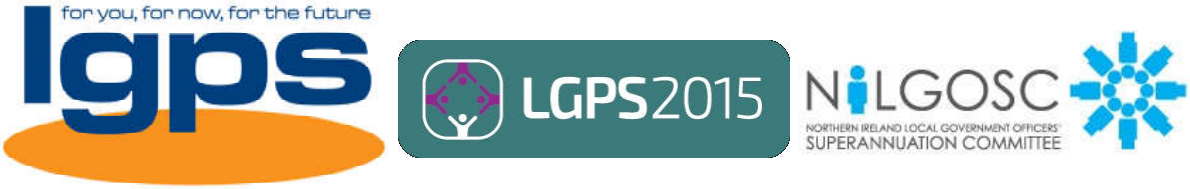
4. APPENDICES

COVID-19 FAQs for LGPS administrators



COVID-19 FAQs for LGPS administrators

COLLAPSE ALL

> Governance and resilience

What activities should administering authorities and employers focus on? −

TPR's COVID-19 guidance for trustees and public service schemes recommends that administrators focus their activities on making sure they deliver critical processes. For the LGPS, we recommend that administering authorities prioritise:

- paying existing pensioners
- processing new pensions benefit cases
- dealing with bereavement cases

Other areas that should continue to receive attention are ensuring receipt of employee contributions and the provision of member information to reduce the risk of scams and support effective decision making. TPR recognises that during this time some administrative breaches of the law may occur and therefore will maintain a proportionate and fair approach to any action they may take.

Are LGPS administration staff key workers for COVID-19? −

The **Government's advice on maintaining educational provision** details which sectors are critical to the COVID-19 response. The guidance confirms that for local government this includes those delivering essential public services, such as the payment of benefits.

In our view, this means that staff working on delivering the critical processes identified in **TPR's COVID-19 guidance for trustees and public service schemes** are key workers.

Should an administering authority allow electronic signatures and documents? −

TPR's COVID-19 guidance for trustees and public service schemes states that pension schemes 'should also allow electronic signatures and documents and encourage other third-party providers to do the same'. The **legal validity of electronic signatures** has been endorsed in a recent statement from Government.

We recommend that administering authorities speak with their audit department and agree a pragmatic way of working during this period of uncertainty. Although it does not apply to the LGPS, administering authorities may find the **Government advice for employers carrying out right to work checks** useful.

Can LGPS authorities suspend the payment of CETVs? −

On 27 March 2020, TPR published **COVID-19 DB scheme funding and investment guidance for trustees** which includes a reference to suspending CETV payments for up to three months where trustees feel it is in the best interests of scheme members. This guidance does not directly apply to the LGPS. Although, administering authorities may wish to use it when deciding whether to suspend the payment of CETVs in the coming months. Government is considering if similar guidance should also be issued for public service pension schemes, if so, it will be referenced here as soon as it is available.

Should the TPR transfer warning letter be sent to LGPS members requesting CETVs? −

TPR's guidance on communicating to members during COVID-19 includes a request for trustees to issue a **template letter** to members applying for a CETV quote. However, the letter, as currently drafted, includes references to the Pension Protection Fund (PPF) and in particular its role in paying pensions when employers become insolvent. This information is inappropriate for the LGPS and could confuse or alarm members.

In discussions with MHCLG, SPPA and DfC, we agreed that the bulk of the message in the letter is helpful and have asked TPR to provide a version without the references to the PPF. In the meantime, you may choose not to send the letter, or send it with an explanation that the references to the PPF do not apply.

Will the Pensions Ombudsman's service be affected? −

The Pensions Ombudsman temporarily stopped processing new enquiries or complaints because of COVID-19. The **TPO COVID-19 update** confirms that TPO can process new applications that are submitted by email from 22 April

2020. Their phone lines are open Monday to Friday between 9am and 5pm. TPO staff are unlikely to receive any applications or correspondence sent by post during the lockdown period.

They will, wherever possible, use their discretion to extend the three year time limit for new applicants affected by this period of restricted service.

What approach will TPR take to breaches of law during this period? −

TPR's update on reporting duties and enforcement activity confirms that they will adopt a more flexible approach to what they expect to be reported in a number of areas due to the COVID-19 situation, and when enforcement action would be appropriate under the current circumstances. These easements will remain in place until 30 June 2020, but they will review more specific flexibilities or restrictions in the coming weeks - and whether the date should be extended. See the update for more information about the general approach they are taking and specific areas that are not covered by it.

What should administering authorities do if they breach service level agreements within their Pension Administration Strategy? −

The Pension Administration Strategy is a voluntary agreement between the administering authority and the employers. If either party is experiencing difficulties in meeting the agreed targets, they should discuss this with one another.

> Payment of benefits

Can an administering authority pay pension benefits without the latest pay information? −

If an administering authority has difficulties obtaining pay information from employers because of COVID-19, they may wish to consider using earlier pensionable pay information (such as from 31 March 2019) to:

- calculate a member's provisional annual pension (BCE 2) and lump sum (BCE 6). These values could then be revised when the actual pay information is received – the recalculation would result in revised BCEs.
- make a 'payment on account' of a pension commencement lump sum (PCLS) – possibly to the value of a 3/80th lump sum, where one is payable. This would be an early payment of a PCLS, which can be paid up to six months before the BCE date. The payment is not, at this point, considered for the lifetime allowance (LTA). When the administering authority receives the actual pay information, they could calculate and pay the annual pension (BCE 2) and revise the PCLS (BCE6) and at that point consider the member's LTA.

Will employers be able to progress ill health retirement applications in the current climate?

We contacted the Association of Local Authority Medical Advisers (ALAMA) who confirmed that the instruction below has been posted on their website:

'During the current COVID-19 crisis, it is important to continue to progress ill health retirement applications. It is also particularly important that assessments remain fair and reasonable, and that should include requesting GP and specialist reports as required. There has never been a requirement for these assessments to be face to face, therefore paperwork reviews, with telephone clarification if needed, is the most appropriate way to progress these.

If it is not possible to get reports, an assessment should be based on whether reports are likely to influence your decision further, and whether you have enough objective evidence to make an opinion. Opinions should always be 'on balance of probability'. There will be times when you simply don't have sufficient objective evidence to support ill health retirement, and you have been unable to get clinical reports. You should suggest that the applicant request copies of clinical reports direct from their GP.'

What happens if there is a delay in progressing an ill health retirement application or tier three review?

Each case will be different and will need to be assessed on its own merits. However, where an employee is reaching the end of their sick pay the employer could put them back on full pay or, if applicable, furlough them. The **LGA workforce update: job retention scheme** has more information on this.

In England and Wales, any such delay could affect the date from which a post-2014 deferred pension is paid on ill health grounds, or the date that a Tier three pension is upgraded to Tier two. MHCLG has confirmed that an administering authority will need to make a local decision in this type of case. To help them make their decisions, employers and administering authorities may wish to ask IRMPs to include in their report information about any delays due to COVID-19 that have affected the member's application.

Are payments under the NHS and Social Care Coronavirus Life Assurance Scheme (England) paid in addition to an LGPS death in service payment?

Yes, the scheme specifies that payments are separate to and regardless of other registered pension scheme benefits. A **summary note on the scheme** is available on the **COVID-19 page of the SAB website**. Further information is also available from the **life assurance scheme page on the NHSBSA website**.

Have the Scottish and Welsh Governments introduced Coronavirus Life Assurance schemes?

The Scottish Government has introduced a special temporary scheme called **the NHS Scotland Coronavirus Life Assurance Scheme (Scotland)**. The Scheme may provide a lump sum and survivor benefits to families of frontline NHS staff who die as a result of COVID-19. The Scheme is designed for those who do not qualify for full death benefits under the NHS pension schemes. On 24 May 2020, it announced **plans to make a one-off payment of £60,000** where a social care worker dies without death in service cover in their contracted pension scheme. The Scottish Government is working with local Government, social care providers and trade unions on the details.

On 27 April 2020, **Welsh Ministers published a written statement** confirming that they will establish a similar life assurance scheme to the English NHS and Social Care Coronavirus Life Assurance Scheme. Further details are awaited.

> Contributions

Can employers delay or pause paying employee contributions?

No, regulations confirm that employee contributions must be submitted to the administering authority in line with the timescales in the Pensions Act 1995. That is, by either the 22nd (where they are paid electronically) or the 19th of the month following the last day of the month in which the contributions are deducted. If an employer fails to submit employee contributions on time, paragraph 148 of **TPR Code 14** states that where 'the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period'.

Can an administering authority delay receipt of the valuation rates and adjustment certificate beyond the first anniversary of the valuation date?

Regulations state that the rates and adjustments certificates must be obtained before the first anniversary of the valuation date unless the Secretary of State/Scottish ministers/Northern Ireland Department for Communities (the Department) agrees to a later date.

Can administering authorities allow employer contribution 'holidays'?

Our view is that regulations confirm that an administering authority may determine the intervals for employer contribution payments, as they consider appropriate. There must be at least one payment per year but whatever

intervals are set, the total contributions due for the year, as set out in the rates and adjustments certificate, must be received by year end and each payment must equal the appropriate proportion of the total contributions due for the year as determined by the authority.

Deferrals of contributions are only allowed in the limited circumstances set out above and there is no provision for non payment holidays where contributions are not recovered during the year. If, as a last resort, administering authorities consider deferring the commencement of payments to later in the year it is imperative they consider the risks to the fund. These include but are not limited to the risk of the employer not being able to meet the full amount by year end and the risk to the fund's cash flow requirements. As any approach to contribution deferral should be applied consistently authorities may wish to consider agreeing a policy position. Although not directly applicable to the LGPS, administering authorities should be mindful of **guidance issued by TPR** on this matter.

What happens if employer contributions are received late?

If an employer fails to pay contributions on time, regulations confirm that the administering authority may levy interest of base rate plus one percent from the due date to the payment date daily with three monthly rests. Paragraph 147 of **TPR Code 14** also requires that where the 'scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable'.

If an employer is in severe financial difficulty, can an administering authority force them out of the scheme to avoid further build-up of liability?

No, except for Northern Ireland, regulations confirm that the only circumstances, outside of the conditions of the admission agreement, in which an employer ceases membership is if there are no active members (an exiting employer) or if the administering authority considers it likely that they will become an exiting employer.

An employer in Northern Ireland may be required to cease active membership to protect the solvency of the fund or prevent liabilities falling on other employers with the agreement of the Department.

Can administering authorities use the 'deferred employer' route or other flexibilities to better manage employers who exit the scheme?

The deferred employer route is not currently available in the LGPS. However, in England Wales, MHCLG is considering the possibility of bringing

forward these and other proposals for flexibility on exit payments included in the **May 2019 consultation**.

Current regulations in England Wales provide that an administering authority may recover an exit payment over such period of time they consider reasonable but can only suspend the employer's liability to pay an exit payment where there is an expectation that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. Any suspension can only be for a maximum of three years and the employer must continue to pay contributions as reasonably required by the authority during that time.

In Scotland current regulations provide that an administering authority can suspend an employer's liability to pay an exit payment indefinitely. However, if a suspension notice is served the regulations provide that the employer must continue to pay contributions as determined by the actuary until the suspension notice is withdrawn.

In Northern Ireland regulations provide for an exit payment to be deferred with the approval of the Department during which time contributions continue to paid by the employer as determined by the actuary. If there is a material change in circumstances the exit date may be varied with the approval of the

Can an employer defer payment of strain costs? –

Regulations confirm that this is an administering authority discretion which may be limited by the Funding Strategy Statement (FSS). For example, an FSS may state that strain costs must be paid immediately except in exceptional circumstances and only for ill health cases. Administering authorities may wish to review their FSS to provide more flexibility for employers during this crisis.

> Emergency Volunteering Leave, Secondment, Re-employment and Reserve Forces Leave

What employee and employer contributions are payable if a member takes Emergency Volunteering Leave (EVL)? –

Employer pension contributions will be based on assumed pensionable pay (APP). Employee pension contributions will be based on the amount of the employee's actual pay during **emergency volunteering leave**. All scheme discretions (administering authority and employing authority) should operate in the same way as if the member were receiving normal pay.

An active member is seconded as part of the emergency staffing how does this affect their pension benefits? –

If any LGPS members are seconded on **emergency staffing** to the NHS, their pension benefits continue on the same basis as before the secondment.

A deferred or pensioner member is part of the emergency staffing how does this affect their pension benefits? −

Deferred and pensioner LGPS members who return to work in local government or are offered contracts of employment with the NHS (as part of **emergency staffing**) will have access to pension provision in the appropriate pension scheme. If they are issued with an NHS voluntary agreement it does not constitute an employment contract and therefore, they will not have access to the NHS pension scheme. Please also see answers to the question covering abatement of pension.

Should an administering authority abate a member's pension if they return to work? −

Although the Government suspension of abatement in the NHS pension scheme did not extend to re-employed members of the LGPS, the Government's policy is that pensioners who return to roles as key workers should not be financially penalised for helping tackle coronavirus (COVID-19). On 19 March the England Wales Scheme Advisory Board (SAB) sent **a letter to the chairs of pension committees** to that effect. Administering authorities should adjust and publish their revised abatement policies as a matter of urgency.

Is it compulsory to abate compensatory added years if a member returns to work? −

A Scottish employing authority must abate a member's compensatory added years (CAY) if:

- the person returns to work and is employed by Scottish LGPS employer or a relevant English or Welsh employer (regardless of whether the person re-joins the LGPS), and
- the earnings from their re-employment exceed specified criteria

When the re-employment ends the CAY could be permanently abated depending on the length of re-employment.

Similar rules apply in England and Wales however, we do not envisage these members will be re-employed to assist with the COVID-19 response as it has not been possible to award added years since 2006.

What happens when a member is on reserve forces leave? −

The Ministry of Defence (MOD) expects to mobilise up to 3,000 armed forces reservists to assist in the Government's COVID-19 response. LGPS members on reserve forces leave can choose to remain in the LGPS. If an employee chooses to remain in the LGPS, their contributions will be based on Assumed Pensionable Pay (APP).

The employer must tell the MOD the APP figure, the amount of basic employee and employer contributions that must be paid and details of any additional contributions the member is paying. The MOD will pay the contributions to the administering authority. Any payments made by the employer to a member who is on reserve forces leave are non-pensionable.

> Furloughed staff

Who are furloughed staff? –

Employees who are being paid under the Government s **Coronavirus Job Retention Scheme** are referred to as furloughed staff. More information on this and other employment issues can be found at the LGA s **workforce update - job retention scheme** and **COVID-19 employment Law FAQs** page.

Is furlough pay pensionable? –

Yes, furlough pay is pensionable pay under the regulations. Employee and employer contributions should be deducted based on the actual pay the furloughed employee receives. Assumed Pensionable Pay does not apply.

Can employers reclaim pension contributions from the coronavirus job retention scheme? –

Employers can only claim pension contributions for furloughed employees up to the minimum required for automatic enrolment, that is 3 of income above the lower limit of qualifying earnings (which is 512 per month until 5th April and will be 520 per month from 6th April 2020 onwards). The cost of employer contributions above the 3 minimum will fall to the employer.

How will furlough pay affect pension build up? –

Members will continue to build up CARE pension based on the actual pay they receive. If the furlough pay is less than their normal pay (because the employer chooses not to top up pay to 100), the pension they build up will also be less. They can choose to buy additional 'extra' pension to make up for the pension lost during this period. The employer is not obliged to split the cost with the member but can choose to. The employer could choose to award additional pension to the member, based on the pension lost during a period of reduced

pay.

Final salary benefits are usually calculated using the pensionable pay earned in the year before leaving the scheme however, one of the two previous years pay is used, if higher. This should prevent final salary benefits from being detrimentally affected if the member's pay is reduced due to being on furlough.

In our view, if an England Wales member's contract of employment is changed when they are furloughed, they will not have the option to have their final pay calculated as the average of any three consecutive years pay in the last 13 years.

A certificate of protection in Scotland will not apply because the reduction is temporary.

How will being on furlough leave affect a member's death in service benefits? −

Assumed pensionable pay (APP) is used in the calculation of the death grant and any survivor benefits if a member dies in service. APP is usually calculated using the average pensionable pay the member receives in the three months before the pay period in which they die.

If a member receiving reduced furlough pay dies in service, employers should make use of the provision in the regulations that allows them to substitute a higher pay figure to reflect the pensionable pay the member would normally have received.

How will being on furlough leave affect salary sacrifice benefits? −

The **Government's Coronavirus Job Retention Scheme guidance** states that all the grant received to cover an employee's subsidised furlough pay must be paid to them in the form of money. No part of the grant should be netted off to pay for the provision of a salary sacrifice scheme. Where the employer provides benefits to furloughed employees through a salary sacrifice scheme, these benefits should be in addition to the wages that must be paid under the terms of the job retention scheme.

When determining the employee contribution rate on 1 April 2020, should furlough pay be used? −

Yes, if furlough pay forms all or part of a member's pensionable pay it should be used to determine the employee contribution rate on 1 April 2020.

Regulations in England Wales and Northern Ireland provide that where there is change to employment, or a material change, during the year, the employer may make a further determination and reallocate a member to a different band.

In Scotland a further determination must be made if there is a permanent material change to the terms and conditions of a member s employment during the year. The employer must notify the member if they reallocate a member to a different band.

Further information is available from the **LGA guide on discretionary policies** and SPPA **employer guidance for the assessment of member contribution rates**.

> Information for scheme members

What information is available for members who are concerned about their financial situation due to COVID-19?

Administering authorities should encourage members to look at the **member FAQs**. This includes questions about reducing/ceasing contributions, pension scams and other guidance on how to deal with the financial effects they may be suffering.

> Annual Scheme Events

Will there be any relaxation of the deadline for issuing 2019/20 annual benefit statements?

Regulations confirm that administering authorities must issue annual benefit statements to active, deferred, deferred pensioner and pension credit members by 31 August 2020. We have raised this question with MHCLG (in relation to England and Wales).

Meanwhile, **TPR's update for trustees, employers and administrators** confirms that they understand many non-critical services may be affected and this may include delays in producing annual benefit statements. In addition, **TPR's update on reporting duties and enforcement activity** confirms that they have decided they can adopt a more flexible approach to what they expect to be reported in a number of areas (including annual benefit statements) due to the COVID-19 situation, and when enforcement action would be appropriate under the current circumstances. These easements will remain in place until 30 June 2020, but they will review more specific flexibilities or restrictions in the coming weeks - and whether the date should be extended.

Will there be any relaxation to the timescales for publishing the 2019/20 pension fund annual report?

The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 extend the publication for local authority accounts (England and Wales) to 30 November 2020, with the public inspection period now starting on the first working day of September 2020. However, at present there are no plans for an automatic extension of the publication date for the annual report and accounts.

MHCLG have requested that funds inform the LGA (**query.lgps@local.gov.uk**) of any knock on issues arising from the Accounts and Audit (Coronavirus)(Amendment)Regulations 2020 to enable them to keep the matter under consideration. The LGPS regulations require that the annual report and accounts are published by 1 December 2020.

The view of the Scottish Government is that the provisions made in the **Coronavirus (Scotland) Act 2020** are sufficient to allow each authority to determine its own timetable for Annual Accounts . Scottish Ministers consider that it seems reasonable that alocal authority publishes its Annual Accounts no later than 30 November 2020 .

> Pensions Tax

Will there be any relaxation of the deadline for sending an AFT return to HMRC? −

HMRC acknowledge in **Pension Schemes Newsletter 118** that pension companies and scheme administrators may face challenges submitting Accounting For Tax (AFT) returns and making payments by the deadline of 15 May 2020, if resources are affected by COVID-19. If this is the case and an administering authority receives penalties or interest on the return for the quarter ending 31 March 2020, they can email details to HMRC at **pensions.businessdelivery@hmrc.gov.uk** and put 'AFT return – Newsletter 118' in the subject line of the email. HMRC will cancel any penalties and interest in these circumstances.

Will there be any relaxation of the deadline for filing an event report? −

HMRC acknowledge in **Pension Schemes Newsletter 118** that scheme administrators may face challenges submitting APSS262s (transfers to QROPS) within the 30 day deadline if resources are affected by COVID-19. So if, over the next three months, an administering authority receives a penalty relating to the late reporting of an overseas transfer, they can email details to HMRC at **pensions.businessdelivery@hmrc.gov.uk** and put 'APSS262 – Newsletter 118' in the subject line of the email. HMRC will cancel any penalties in these circumstances.

City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

B

Subject: Funding Strategy Statement Consultation

Summary statement:

This report updates the Local Pension Board on the recent consultation on the Funding Strategy to incorporate the Fund's approach to the refund of exit credits and to allow new employer admissions to be on a pass through basis.

Recommendation

It is recommended that the Local Pension Board make any comments on the amendments they would wish the Joint Advisory Group to consider.

Appendix: Draft Funding Strategy statement

Rodney Barton
Director

Portfolio

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Overview & Scrutiny Area

1. SUMMARY

1.1 The current Funding Strategy Statement (FSS) requires updating for two reasons.

- To incorporate changes made by the Local Government Pension Scheme (LGPS) Regulations relating to exit credits.
- To change how new employer admissions are administered, to reduce administration and advisory fees, and to provide a further option for employers via the introduction of a pass through ("pooling") approach with effect from 1 April 2020
- The Joint Advisory Group will consider the draft amendments to the FSS and responses to the consulation at its meeting in July.

2. CHANGES TO THE FSS

2.1 Exit Credits

On 14 May 2018 the Government unexpectedly introduced the requirement for funds to pay out an exit credit to employers leaving the LGPS with a surplus (i.e. where the value of assets notionally allocated to the employer exceeds the value of its liabilities on exit). It soon became apparent that this wasn't working as intended and could lead to payments to contractors who had been protected against pension deficits and contribution increases under contractual arrangements that simply did not envisage surpluses being paid out. The Government consulted on possible amendments to rectify the position, and in February 2020 issued a response to that consultation, together with new Regulations which came into force on 20 March 2020. The Government response document was clear that "*Administering Authorities should adopt a fair and reasonable exit credits policy which should be set out in their Funding Strategy Statement*." and stated that "*The policy should aim to protect the interests of the members and employers as a whole and look wider than the interests of the single employer in question.*" It also encouraged administering authorities to take legal and actuarial advice.

We have considered the regulatory changes, sought advice, and developed an approach which we believe achieves the Government's objectives and very clearly protects the interests of members and all employers of the West Yorkshire Pension Fund. In summary:

- For exits where the assets and liabilities are being "subsumed" (i.e. transferring to an ongoing employer, usually the authority which has let the contract), we will instruct the Actuary to calculate the liabilities on exit using the same principles as adopted for setting contributions for the subsuming employer. We think this is fairer to the exiting employer than an approach which changes the basis on which the liabilities are calculated on exit.

  Where there is a surplus on exit, the default approach will be to pay an exit credit which is the lower of the surplus and the total contributions paid by the employer, with a deduction to cover any costs incurred by the Fund in relation to the exit, e.g. actuarial and legal costs. We think this is fairer to the remaining

employers since the exiting employer won't be receiving more from the Fund than it has paid in.

We will liaise with the subsuming employer and exiting employer to ensure that there are no contractual arrangements in place which suggest an alternative approach, e.g. that no exit credit should be paid because all pension costs have been passed back to the letting authority. This is fair to both parties as it will enable us to reflect the specifics of any agreement in determining the exit credit payable.

However, we have retained the flexibility to vary the funding target (i.e. how the liabilities are calculated) in "exceptional circumstances". We don't yet know what those circumstances might be but felt it was important to have that flexibility to protect all employers should the need arise.

- For exits where there is no successor body to take on the liabilities of the exiting employer and a low risk funding target is adopted, the amount of any surplus on exit will be repaid to the employer, after deduction of any costs incurred by the Fund in relation to the exit, e.g. actuarial and legal costs. We think this is fair to the exiting employer since it is likely to have paid higher contributions than other employers due to there being no successor body. We also think it is fair to the other employers since the low risk funding target is intended to ensure that the Fund could (broadly) invest in a portfolio of government bonds to meet the liabilities, so reducing the investment risk required to pay members' benefits after the employer has exited.

2.2 Pass through (pooling)

WYPF has traditionally treated each employer individually for funding purposes, with each having its own individually assessed funding position and contribution rate. However, as the number of small admissions has risen, with many of these being in relation to contracts of less than 5 years, we have come to the view that these arrangements not only lead to contributions which can be very volatile for the employer, but they also require disproportionate administration time and advisory (actuarial) costs. We had been waiting for the long-promised Fair Deal changes before reviewing our approach, but Government has other priorities and it is not clear if, or when, any regulatory changes will be made.

We are therefore proposing to implement a default approach whereby contractors with fewer than 100 members and a contract period of less than 5 years will be "pooled" with the letting authority for funding purposes. This means the Actuary won't need to calculate a notional transfer of assets from the letting authority to the contractor nor assess the contractor's contribution rate on commencement. The contractor would simply pay the same contribution rate as the letting authority. In addition, no exit payment would be due to or from the contractor on exit and the contractor's assets and liabilities would be retained within the letting authority's pool (as if subsumed). The contractor would be charged for any additional contributions due on redundancy early retirement or where additional pension is granted but otherwise all funding risks would be shared within the pool. In effect, the Actuary would treat the contractor and letting authority as a single employer when calculating contribution rates.

In addition, we are able to offer this flexibility for other contracts, i.e. where the letting authority and contractor agree, the Fund is willing to administer this pooling approach for longer-term and larger contracts. Our template admission agreement will include standard wording to document these arrangements.

It is proposed that the new pass through / pooling arrangements will come into operation for any admissions with a commencement date on or after 1 April 2020.

3. CONSULTATION EXERCISE ON THE PROPOSED UPDATES TO THE FUNDING STRATEGY STATEMENT

3.1 In accordance with Regulation 58 of LGPS Regulations 2013 a consultation exercise has been completed with elected members and employer representatives on the proposed changes to the FSS to incorporate the changes described in 2.1 and 2.2 of this report.

3.2 Any comments received in response to the consultation will be considered before asking the Joint Advisory Group to approve the changes to the FSS.

3.3 A copy of the draft Funding Strategy statement can be found at Appendix A.

4. RECOMMENDATION

It is recommended that the Local Pension Board make any comments on the amendments they would wish the Joint Advisory Group to consider.

5. APPENDIX

Draft Funding Strategy statement

Funding Strategy Statement

April 2020

1. Introduction

1.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

After consultation with all such persons as it considers appropriate, including officers and elected members and other employer representatives, the Administering Authority will prepare, maintain and publish their funding strategy;

In preparing the FSS, the Administering Authority must have regard to:-

- the statutory guidance issued by CIPFA for this purpose; and
- the Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) ("The Investment Regulations").

The FSS must be revised and published in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended), whenever there is a material change in either the policy on the matters set out in the FSS, or ISS.

1.2 Benefits payable under the Local Government Pension Scheme (LGPS) are guaranteed by statute and thereby the pension promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

1.3 The LGPS is a defined benefit scheme under which the benefits are specified in the governing legislation, currently the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations").

1.4 Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation be completed every three years by the actuary, to include a rates and adjustments certificate. The primary rate of employers'

contributions to the Fund should be set so as to “secure its solvency”. The actuary must have regard to the desirability of maintaining as nearly constant a primary rate of employer contribution as possible in addition to 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. The actuary must also have regard to the FSS in carrying out the valuation.

2. Purpose of Funding Strategy Statement (FSS)

2.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will, therefore, determine the rate or pace at which this advance provision is made. Although the regulations specify the fundamental principles on which funding contributions should be assessed, the implementation of the funding strategy is the responsibility of the Administering Authority, acting on professional advice provided by the actuary.

2.2 The purpose of this FSS is to set out the processes by which the Administering Authority:

- 2.2.1 establishes a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
- 2.2.2 supports the regulatory requirement that it is desirable to maintain as far as possible stable primary employer contribution rates;
- 2.2.3 ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met;
- 2.2.4 takes a prudent longer-term view of funding the liabilities.

2.3 It should be stressed at the outset that, supplementary to the regulatory requirement to consider the desirability of maintaining a constant primary employer contribution rate as referred to in 2.2.2 above, a key priority for the Administering Authority is to bring stability to employers’ total contributions through gradual increases (or decreases) phased in over a number of years. Views will be taken on what is reasonable and appropriate for employer contributions and, therefore, the degree of risk inherent within the funding targets and associated periods for recovery of deficits or return of surpluses.

2.4 The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of all employers will be referred to in the FSS, its focus should at all times be on those actions which are in the best long-

term interests of the Fund. Consequently, the FSS must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and Purpose of the Pension Fund

3.1 The aims of the Fund are to:

- 3.1.1 enable primary employer contribution rates to be kept as constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, designating, and admission bodies,
- 3.1.2 enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, designating, and admission bodies whilst achieving and maintaining the solvency of the Fund, which should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers alike;
- 3.1.3 manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due. The Fund has a significant positive cash flow in terms of income received, including investment income, offset by monies payable; and
- 3.1.4 maximise the returns from investments within reasonable risk parameters.

3.2 The purpose of the Fund is to:

3.2.1 receive monies in respect of contributions from employers and employees, transfer values and investment income; and

3.2.2 pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment regulations.

4. Responsibilities of Key Parties

4.1 The sound management of the Fund relies on all interested parties exercising their duties and responsibilities conscientiously and diligently. The key parties in this statement are the Administering Authority, Scheme employers and the actuary.

4.2 The Administering Authority should:-

- 4.2.1 operate a pension fund;
- 4.2.2 collect employee and employer contributions, investment income and other amounts due to the pension fund;
- 4.2.3 invest all monies held in accordance with the ISS;
- 4.2.4 maintain adequate records for each Scheme member;

- 4.2.5 exercise discretions within the regulatory framework, taking into account the cost of decisions;
- 4.2.6 take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- 4.2.7 ensure sufficient cash is available to meet liabilities as they fall due;
- 4.2.8 pay from the pension fund the relevant entitlements as stipulated in the Regulations;
- 4.2.9 provide membership records and financial information to the actuary promptly when required;
- 4.2.10 prepare and maintain a Funding Strategy Statement and Investment Strategy Statement in proper consultation with interested parties;
- 4.2.11 monitor all aspects of the Fund's performance and funding and amend the FSSISS accordingly;
- 4.2.12 manage the valuation process in consultation with the actuary;
- 4.2.13 effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and Scheme employer; and
- 4.2.14 enable the Local Pension Board to review the valuation process as set out in their terms of reference.

4.3 Each individual employer should:

- 4.3.1 deduct contributions from employees' pay correctly;
- 4.3.2 pay all ongoing contributions, including their own as determined by the actuary, and any additional contributions promptly by the due date;
- 4.3.3 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework, taking into account the cost of decisions;
- 4.3.4 make additional contributions in accordance with agreed arrangements in respect of, for example, award of additional pension and early retirement strain;
- 4.3.5 provide adequate membership records to the Administering Authority promptly as required;
- 4.3.6 notify the Administering Authority promptly of all changes or proposed changes to membership which affect future funding;
- 4.3.7 notify the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund which affect future funding; and
- 4.3.8 be aware that responsibility for compensatory added years, which the Administering Authority pays on behalf of the employer as a paying agent, lies with the employer which awards and is recharged for the cost of compensatory added years.
- 4.3.9 pay any exit payments required in the event of their ceasing participation in the Fund.

4.4 The Fund Actuary should:

- 4.4.1 prepare triennial valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations;
- 4.4.2 prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, etc;

- 4.4.3 provide advice and valuations on the exiting of employers from the Fund.
- 4.4.4 provide advice to the Administering Authority on bonds or other forms of security to mitigate against the financial effect on the fund of employer default;
- 4.4.5 assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations; and
- 4.4.6 ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.

5. Solvency Issues, Target Funding Levels and Long-term Cost Efficiency

Risk Based Approach

5.1 The Fund adopts a risk based approach to funding strategy. In particular the discount rate (for the secure scheduled bodies) has been set on the basis of the assessed likelihood of meeting the funding objectives. The Administering Authority has considered 3 key decisions in setting the discount rate:

- 5.1.1 the long-term Solvency Target (i.e. the funding objective - where the Administering Authority wants the Fund to get to);
- 5.1.2 the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- 5.1.3 the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

5.2 These three choices, supported by complex (stochastic) risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Solvency Target

5.3 The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

5.4 The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because 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%.

5.5 For secure Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following cessation, or in the case of community admission bodies, where a suitable guarantee is in place, the Solvency Target is set:

5.5.1 at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,

5.5.2 based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pensions accounts (Consumer Price Index (CPI)).

As at 31 March 2019 the long-term rate of CPI is assumed to be 2% p.a. and a prudent long-term investment return of 2% above CPI is assumed.

As at 31 March 2019 the solvency discount rate is therefore of 4% p.a.

5.6 For Admission Bodies whose liabilities are expected to be orphaned following exit, other than those community admission bodies where a suitable guarantee is in place, a more prudent approach will be taken. The Solvency Target will be set by considering the valuation basis which would be adopted should the body leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds after exit.

5.7 For scheduled bodies with no guarantee from local or central government and Admission Bodies where there is no subsumption commitment but which continue to admit new members to the Fund and are considered by the Administering Authority to be sufficiently financially secure, the Solvency Target will take into account the fact that the employer's exit is not expected to take place for a considerable period of time.

Probability of Funding Success

5.8 The Administering Authority considers funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

With effect from 31 March 2019 the discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is a 75% chance that the Fund would reach or exceed its Solvency Target after 25 years (the Trajectory Period).

Funding Target

5.9 The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or shortfall, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined above). The key assumptions used for assessing the Funding Target at the 2019 Valuation are summarised in Appendix 1.

5.10 Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible, contributions are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

5.11 For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire. This approach should lead to more stable employer contribution rates than adoption of the Projected Unit method for closed employers.

Funding Targets and assumptions regarding future investment strategy

5.12 For Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite, Admission Bodies with a subsumption commitment from such Scheduled Bodies, and community admission bodies, where a suitable guarantee is in place the Administering Authority assumes indefinite

investment in a broad range of assets of higher risk than risk free assets. This is known as the scheduled and subsumption body funding target.

5.13 For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- 5.13.1 the type/group of the employer
- 5.13.2 the business plans of the employer;
- 5.13.3 an assessment of the financial covenant of the employer;
- 5.13.4 any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

At the 2019 valuation by virtue of having taken account of some of the above factors, the Administering Authority has adopted a less risky (more prudent) funding target than the scheduled and subsumption body funding target for scheduled bodies in the HE/FE sector. This is the intermediate funding target and the precise target depends upon the employer's assessed level of risk.

5.14 For Admission Bodies where there is no subsumption commitment but which continue to admit new members to the Fund and are considered by the Administering Authority to be sufficiently financially secure, the Administering Authority may assume continued investment in a broad range of assets of higher risk than risk free assets despite the approach taken on exit. This is known as the intermediate funding target and the precise target depends upon the employer's assessed level of risk. At the 2019 valuation this applies to admission bodies in the housing and HE/FE sectors.

5.15 For all other Admission Bodies whose liabilities are expected to be orphaned on exit, other than those community admission bodies where a suitable guarantee is in place, the Administering Authority will have regards to the potential timing of such exit and any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit. This is known as the ongoing orphan admission bodies funding target. It is not the same as the exit basis.

5.16 The Fund is deemed to be fully funded when the assets are equal to or greater than 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

Recovery Periods

5.17 Where a valuation reveals that the Fund is in surplus or deficit relative to the Funding Target, subject to any smoothing of contribution changes employers' contributions will be adjusted to target 100% funding over the Recovery Period. The Fund has a target of achieving the Funding Target within a maximum period of 22 years. Whilst this is longer than the expected average future period of membership of active members, the Administering Authority considers this is reasonable in the context of the LGPS as a statutory scheme and it is a prudent approach when the Fund's assets are greater than the liabilities (sum of the employers' funding targets). The recovery period is also based on the assumption that the Scheme (and the majority of the employers) will continue for the foreseeable future, and that favourable investment performance can play a valuable role in achieving adequate funding over the long term.

5.18 If the assets of the scheme relating to an employer are less than the Funding Target at the date of any actuarial valuation, a recovery plan will be put in place, which is expected to require additional contributions from the employer to meet the deficit. Each employer will be informed of its deficit to enable it to make the necessary allowance in their business and financial plans. The Recovery Period in relation to an employer or group of employers is the period over which any adjustment to the level of contributions in respect of a surplus or deficit relative to the Funding Target for that employer or group of employers is payable.

5.19 Additional contributions to meet any shortfall will be expressed as a monetary amount, and will increase annually in line with the assumption for pay growth used for the valuation unless a different increase rate is agreed between the employer and Administering Authority. The recovery period for which the additional contributions are payable will normally be subject to the following limits:-

- 5.19.1 scheduled bodies whose participation is deemed to be indefinite, designating and open admission bodies with subsumption commitments or suitable guarantees from such bodies - 22 years
- 5.19.2 open admission bodies without a subsumption commitment or suitable guarantee and no fixed or known term of participation and scheduled bodies with no local or central government guarantee - 22 years, although the Administering Authority reserves the right to adopt a shorter period if it has concerns about the employer's strength of covenant
- 5.19.3 admission bodies with a fixed or known term of participation - remaining period of participation (including those with a subsumption commitment)
- 5.19.4 other admission bodies (i.e. those closed to new entrants) – average future working life of current active members (or period to contract end date if shorter)

5.20 In determining the Recovery Period to apply for any particular employer, the Administering Authority may take into account, without limitation, the following factors:

- 5.20.1 the type/group of the employer
- 5.20.2 the size of the funding shortfall or surplus;
- 5.20.3 the business plans of the employer;
- 5.20.4 the assessment of the financial covenant of the employer;
- 5.20.5 any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.
- 5.20.6 the views of the subsuming employer where the funding target adopted is dependent upon another employer subsuming the assets and liabilities post-exit

Employer Contributions

5.21 As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers.

5.22 Employer contributions required to meet the cost of future accrual of benefits for members after the valuation date (the “primary contribution rate”) are assessed based on each employer or group of employers’ membership, funding target and appropriate funding methodology.

5.23 The primary rates may be reduced if the employer or group’s notional share of the Fund (its assets compared to its funding target) is calculated to be in surplus. Alternatively, additional employer contributions may be required to rectify a shortfall of assets below the funding target. These past service (“secondary”) contributions are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy, between the various employers in the Fund, except in relation to death in service and (with effect from 1 April 2014) tier 1 and 2 ill health retirement experience where experience is shared across all employers. In attributing the overall investment performance achieved on the assets of the Fund to each employer a pro-rata principle has been adopted. From 1 March 2018 the investment performance will be allocated on a monthly basis via the unitisation process (applied retrospectively to 1 April 2016 in respect of any inter-valuation calculations where the employer asset value is taken from the output of the unitisation model).

5.24 The method and assumptions for assessing employer contributions at the 2019 Valuation are set out in Appendix 1.

5.25 The Administering Authority, following consultation with the participating employers, has adopted the following constraints for setting individual employer contribution rates:

- 5.25.1 a maximum Recovery Period of 22 years. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish where their notional share of the Fund is in deficit. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
- 5.25.2 where changes in employer contribution rates are required following completion of the actuarial valuation, the increase or decrease may be implemented in steps as long as the regulatory objectives of solvency and long-term cost efficiency are met.
- 5.25.3 on the exit of an employing authority's participation in the Scheme, the Fund Actuary will be asked to complete an exit valuation. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Details of the approach to be adopted for such an assessment on exit, including how any exit credit may be determined are set out in the separate Policy on New Employers and Exit Valuations document at Appendix 2.

5.26 With regard to the funding for early retirement costs, all employers are required to make capital payments to the Fund to cover the costs of early retirements. This excludes the costs involved with deaths in service and ill health retirements which are built into the employer's contribution rate. For deaths in service and tier 1 and tier 2 ill health retirements the experience will be spread across all employers.

5.27 Two key principles making up the funding strategy and to be adopted for the 2019 actuarial valuation are to:

- 5.27.1 provide stability in primary employer contribution rates and secondary employer contribution amounts where possible, avoiding wide fluctuations year on year. To achieve this stability and ensure gradual movements in employers' contribution levels, the practice of phasing any increases or decreases in employers' contribution requirements up to 6 years from 1 April 2020 will be adopted where appropriate and required;
- 5.27.2 retain a maximum 22 year recovery period for meeting any deficit (or using up any surplus) as adopted at previous valuations.

5.28 It may not be possible to adopt the two principles outlined in paragraph 5.25 for some or all of the employers identified in paragraphs 5.19.2, 5.19.3 and 5.19.4, although wherever possible they will be applied. Individual decisions may have to be taken for each employer featuring in these three groups with regard to an appropriate recovery period and whether the phasing of increases or decreases in

contribution rates is feasible. Decisions on these issues will have regard to the Administering Authority's views on the strength of an employer's covenant, to its membership profile, and to its anticipated future period of participation in the Fund.

5.29 The strategic aim of the Fund is to operate within a funding range of 90% to 110%. Whenever the Fund as a whole is operating within this range of funding then for the majority of 'high covenant' employers it is anticipated that their contribution rates will remain stable as long as the requirement for contributions to be set so as the ensure the solvency and long-term cost efficiency of the Fund are still met. For other employers the Administering Authority will have regard to the potential for participation to cease, and require changes in contribution rates accordingly.

Long-term cost efficiency

5.30 The Administering Authority believes that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund. In particular, retention of a 22 year recovery period for the majority of employers ensures any surplus is not used up too quickly (through certifying contributions below the primary contribution rate).

Smoothing of Contribution rates for admission bodies

5.31 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of admission bodies. On the one hand, the Administering Authority requires all admission bodies to be fully self-funding, such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies. On the other hand, requiring achievement of full funding over a short time horizon may precipitate failure of the body in question, leading to costs for other participating employers.

5.32 Where the Administering Authority considers it necessary to relax the requirement that the contribution rate targets full funding temporarily, the Administering Authority will engage with the largest employers in the Fund with a view to seeking agreement to this approach.

5.33 The implication of this is that, where justified on affordability grounds, contribution rates for admission bodies subject to the ongoing orphan funding target may be relaxed i.e. set at a level lower than full funding would require. However,

where deficit payments are being deferred, the bodies should be aware that, all things being equal, this will lead to a higher contribution requirement in future. It is expected such bodies should pay contributions equal to the cost of benefits accruing for their members calculated on the ongoing funding target plus a contribution towards any shortfall. Should an employer exit the Fund during the period when contribution rates have been relaxed, the full value of the employer's liabilities in the Fund will be taken into account in the exit valuation, i.e. the employer will, in effect, be required to make up any additional underfunding by virtue of contributions having been relaxed.

Notional sub-funds (unitisation)

5.34 In order to establish contribution rates for individual employers or groups of employers the Fund Actuary notionally subdivides the Fund assets between the employers, as if each employer had its own notional sub fund within the Fund.

5.35 This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

5.36 With effect from 1 April 2016 a unitised approach has been taken to track the notional employer sub-funds. The unitisation model will use the notional sub-funds as at 31 March 2016 (the date of the last actuarial valuation) as its starting point and allocates all Fund cashflows between employers on a monthly basis as agreed with the Administering Authority. The Administering Authority believes this results in a more accurate and transparent allocation of assets to employers and reduces the likelihood of unintended cross-subsidies between employers than other approaches. Further information on the model and how it operates is available on request.

Former Participating Bodies

5.37 Where an employer ceases to participate in the Fund, the Administering Authority will obtain an exit valuation from the actuary on the assumption that, unless a subsumption arrangement is in place, the assets will assumed to be invested in low risk investments and this will be sufficient to meet the liabilities. This approach reduces the risk that a deficit could arise on these liabilities in future which would incur a cost for the other employers in the Fund. Further details of the Administering Authority's policy for exit valuations are set out in Appendix 2.

5.38 Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each valuation. This will be achieved by notionally re-allocating assets within the Fund as required.

6. Link to investment policy set out in the Investment Strategy Statement (ISS)

6.1 In assessing the value of the Fund's liabilities in the valuation, allowance has been made for future investment returns, as described in Appendix 1, which takes into account the investment strategy adopted by the Fund, as set out in the ISS.

6.2 It is possible to construct a portfolio that represents a lower risk investment position and one which closely matches the liabilities should there be no employers to fund the liabilities in future. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

6.3 Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the value of the Fund's assets between successive actuarial valuations. However, if, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to set the discount rate by considering the returns on growth assets such as equities. On this basis the discount rate would be lower, the assessed value of the Fund's liabilities valuation would be significantly higher, and the declared funding level would be correspondingly reduced

6.4 Departure from a least risk investment strategy, in particular to include a significant element of Equity investment, gives the prospect that out-performance by the assets will, over time, reduce the employers' contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

6.5 The Fund's current benchmark investment strategy, as set out in its ISS, is that the biggest proportion of the Fund's investments will be in Equities. This type of investment bias is intended to maximise growth in the value of assets over the long term. The expected rate of return and the target set for investment returns in the ISS are reviewed annually as a matter of course, and the relationship with the requirements of the FSS are considered at the same time.

7. Identification of risks and counter-measures

7.1 Whilst the activity of managing the Fund exposes the Administering Authority to a wide range of risks, those most likely to impact on the funding strategy are investment risk, liability risk, liquidity/maturity risk, regulatory/compliance risk, employer risk and governance risk.

Investment risk

7.2 This covers items such as the performance of financial markets and the Fund's (pool) investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- 7.2.1 assets not delivering the required return (for whatever reason, including manager underperformance)
- 7.2.2 systemic risk with the possibility of interlinked and simultaneous financial market volatility
- 7.2.3 insufficient funds to meet liabilities as they fall due
- 7.2.4 inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- 7.2.5 counterparty failure

7.3 The specific risks associated with assets and asset classes are:

- 7.3.1 equities – industry, country, size and stock risks
- 7.3.2 fixed income - yield curve, credit risks, duration risks and market risks
- 7.3.3 alternative assets – liquidity risks, property risk, alpha risk
- 7.3.4 money market – credit risk and liquidity risk
- 7.3.5 currency risk
- 7.3.6 macroeconomic risks

7.4 The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, and through the use of specialist managers with differing mandates in addition to the internal investment management team, which has a wide variety of experience within its members.

7.5 The performance of both markets and managers is reviewed regularly by the Investment Advisory Panel, which has the appropriate skills and training required to undertake this task.

Liability risk

7.6 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks.

7.7 The Administering Authority will ensure that the Fund Actuary investigates demographic experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigations of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

7.8 The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements in the Fund, and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

7.9 If significant liability changes become apparent between valuations, the Administering Authority will notify the affected participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Liquidity and Maturity risk

7.10 This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions and employer activity where an employer consolidates its LGPS membership in another fund, leading to a transfer out of the Fund. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- 7.10.1 budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- 7.10.2 an increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- 7.10.3 public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- 7.10.4 scheme changes and lower member contributions, as provisionally agreed as part of the Scheme Advisory Board cost management process will lead to lower member contributions which may not be immediately matched by higher employer contributions;
- 7.10.5 an increase in the take up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund.

7.11 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues.

Regulatory and compliance risk

7.12 Regulatory risks to the scheme arise from changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law. There are a number of uncertainties associated with the benefit structure at the current time including:

- 7.12.1 How Government will address the issues of GMP indexation and equalisation beyond expiry of the current interim solution from 6 April 2021
- 7.12.2 The McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal be age discrimination, and what that remedy might be in the LGPS in terms of its scope and form.
- 7.12.3 The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay

7.13 There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers, new Fair Deal arrangements and greater flexibility on employer exit from the LGPS. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the Administering Authority understands that the 2022 valuation is definitely going ahead as planned.

7.14 The Administering Authority will keep abreast of all the changes to the LGPS, both proposed and confirmed and discuss any proposals which may affect funding with the Fund Actuary as required. The Administering Authority will normally respond to consultations on these matters where they have an impact on the Fund, and it would encourage employers, who frequently have a greater interest in proposed changes, to respond independently.

Employer risk

7.15 These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

7.16 The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. It has also developed a framework for analysing the risk posed by the larger Tier 3 employers and introduced additional funding targets at the 2019 valuation to reduce the risk of employers failing and exiting the Fund with a material shortfall relative to the exit liabilities. It does not consider it appropriate (or affordable for the employers concerned) to eliminate the risk of an unmet exit deficit and will ask the Fund Actuary to review the funding position of the short term and Tier 3 employers between triennial valuations where it believes this is appropriate.

Governance risk

7.17 Governance risk is essentially one of communication between employer and the Fund, where, for example, an employer fails to inform the Fund of major changes, such as the letting of a contract involving the transfer of significant numbers of staff to another employer, including a wholly owned company which does not participate in the Fund, or only participates for some employees, or an admission body closing the scheme to new entrants.

7.18 The Fund seeks to maintain regular contact with employers to mitigate this risk, and has Pension Fund Representatives for this purpose. The Fund would also advise employers to pay past service deficit payments as lump sums, rather than as a percentage of payroll, to avoid an under payment accruing as a result of a reduction of the payroll.

7.19 To protect the Fund on the admission of a new employer, the existing scheme employer (which should liaise with the Fund) or the Fund if there is no existing scheme employer, will undertake a risk assessment and determine the requirement for a bond or indemnity, which should be reviewed annually. The Fund will commission triennial reviews of any bonds as part of its risk management.

7.20 The Fund will monitor employers with a declining membership, and may introduce a more conservative funding strategy for such employers.

Climate Change

7.21 The Systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

8. Monitoring and Review

8.1 The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and will consult with senior officials of all the Fund’s participating employers.

8.2 A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

8.3 The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- 8.3.1 if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- 8.3.2 if there have been significant changes to the Scheme membership, or LGPS benefits.
- 8.3.3 if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy

- 8.3.4 if there have been any significant special contributions paid into the Fund.

APPENDIX 1

Actuarial Valuation as at 31 March 2019

Method and assumptions used in calculating the funding target

The actuarial method to be used is the Projected Unit method, under which member benefits are projected to increase in line with the salary increases and revaluation of pension accounts (as appropriate) until that member is assumed to leave active service by death, retirement or withdrawal from service.

Principal assumptions

Investment return (discount rate)

The discount rates adopted vary according to the solvency target as set out in section 5.

For the 2019 valuation the discount rate is 4.35% p.a (the scheduled and subsumption body funding target), with the exception of:

- Admission Bodies without a subsumption commitment or suitable guarantee, where the discount rate is 3.3% in service (equivalent to the yield on long-dated fixed interest gilts at a duration appropriate for the Fund's liabilities plus an asset out-performance assumption of 2.0%) and 1.6 % (left service), which is intended to be equivalent to the yield on long-dated fixed interest gilts at the valuation date but which has, in the interests of affordability and stability of employer contributions, been increased by 0.3 % in light of the market expectations of future increase in gilt yields. This is the ongoing orphan admission body funding target.

- Housing associations, universities and colleges, where a risk assessment has been carried out and the employer has been allocated to one of the intermediate funding targets and admission bodies with a subsumption commitment from such employers.

Inflation (Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation)

The RPI inflation assumption is taken to be the Capital Market Assumption at the valuation date as produced by Aon Hewitt Limited. In formulating the Capital Market Assumption, both consensus forecasts and the inflation risk premium are considered.

The CPI inflation assumption at the valuation date is set as RPI inflation less 1.1%.p.a. The deduction has been set having regard to the estimated difference

between RPI and CPI arising from the difference in the calculation approach between the two indices. This estimate (and hence the assumed difference between CPI and RPI) will vary from time to time.

Salary increases

The assumption for real salary increases (salary increases in excess of consumer price inflation) will be determined by an allowance of 1.25% p.a. over the consumer price inflation assumption as described above.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption as determined above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Post-retirement Mortality
Base Rates

Normal Health: Standard SAPS S2N Normal Health tables, year of birth base rates, adjusted by a scaling factor as set based on Fund experience.

Ill-health: Standard SAPS S2 Ill-health tables, year of birth base rates adjusted by a scaling factor as set based on Fund experience.

Future improvement to base rates

An allowance for improvements in line with CMI_2018 for men or women as appropriate, with a long term rate of improvement of 1.50% p.a, sk of 7.5 and parameter A of 0.0.

Other Demographic Assumptions
Allowance is made for withdrawals from service, death on service and retirements due to ill health.

McCloud/Cost Cap

0.9% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across

the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:

- Compensation will apply to members who joined before 1 April 2014 (see below)
- Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach).
- Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to member retiring from active service with immediate pension)
- The remedy will not apply to spouses' or dependants' benefits. This is because transitional protections only applied to members' benefits.

The cost is split 0.2% of pay in respect of past service and 0.7% of pay in respect of future service where the past service cost has been spread over a recovery period of 22 years.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (primary contribution rate) will be calculated using the same actuarial method and assumptions as used to calculate the funding target.

Funding method

For most employers, the actuarial method to be used is the Projected Unit method with a one year control period. For employers who do not permit new employees to join the Fund, the actuarial method to be used is the Attained Age method. Under both funding methods member benefits are protected to increase in line with revaluation of pension accounts until that member is assumed to leave active service by death, retirement or withdrawal from service.

Assumptions used in calculating contributions payable under the Recovery Plan

The contributions payable under the Recovery Plan are calculated using the same assumptions as those used to calculate the funding target

Summary of key whole Fund principal financial assumptions used for calculating funding target and cost of future accrual (the "primary contribution rate") for the 2019 actuarial valuation

Discount rate (in service)	4.35% for Secure Scheduled bodies 4.1% Intermediate (low risk Scheduled Bodies)

	3.95% Intermediate (low risk Admission Bodies and medium risk Scheduled Bodies) 3.8% Intermediate (medium risk Admission Bodies and higher risk Scheduled Bodies) 3.3% Ongoing Orphan Admission Bodies Orphan Admission Bodies and Intermediate funding target (see paragraph 5.15)
Discount rate (left service)	4.35% Secure Scheduled Bodies 4.1% Intermediate (low risk Scheduled Bodies) 3.95% Intermediate (low risk Admission Bodies and medium risk Scheduled Bodies) 3.8% Intermediate (medium risk Admission Bodies and higher risk Scheduled Bodies) 1.6% Ongoing Orphan Admission Bodies
Rate of general pay increases	3.35%
Rate of price inflation (RPI)	3.2%
Rate of price inflation (CPI)	2.1 %
Rate of pension increases (on benefits in excess of GMPs)	2.1%
Rate of pension increases on post-88 GMPs	1.9%
Rate of deferred pension increases	2.1%
Rate of GMP increases in deferment	3.35%

APPENDIX 2: Policy on New Employers and Exit Valuations

1. Background

This Document explains the policies and procedures of the West Yorkshire Pension Fund ("the Fund") in the treatment of employers including on commencement or admission, considerations in respect of the participation of existing Admission Bodies, and the methodology for assessment of an exit payment on exit of employers in the Fund, administered by City of Bradford Metropolitan District Council ("the Administering Authority"). This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

The Administering Authority's aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund.

The Administering Authority has an obligation to pursue all liabilities owed so any shortfall from an individual employer does not fall back on other employers.

2. New Employers

Types of Admission Body

The following bodies are types of potential admission body -

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of-

- (i) any Scheme employers, or
- (ii) local authorities or officers of local authorities;

(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,
- (ii) a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),
- (iii) directions made under section 497A of the Education Act 1996;

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

An employer who wishes to join the Fund may apply to the Administering Authority for admission. If admitted, that employer becomes an Admission Body and specified categories of its employees can participate as members of the Fund.

The Administering Authority is responsible for deciding whether an application from an employer to become an Admission Body within the Fund should be declined or accepted. The employer must meet the requirements set out in Part 3 of Schedule 2 to the LGPS Regulations, and, where appropriate, the additional requirements set out by the Administering Authority.

The Administering Authority will generally only consider admission if the body in question is based wholly or mainly in West Yorkshire or has clear links to an existing Scheme employer of the Fund, the body has a sound financial standing and appropriate security is in place (see section on bonds, indemnities and guarantees below). The Administering Authority's preference is for a Scheme employer to provide a subsumption commitment in respect of any new admission bodies wishing to join the Fund. Where a subsumption commitment is in place, the funding target for the admission body will generally be the same as that appropriate to the subsuming employer, unless the circumstances dictate otherwise. Where such a commitment is not available, the orphan body funding target will generally be adopted, for the new admission to protect the Fund as set out in paragraph 5.6 of the Funding Strategy Statement and explained further below. In the extreme, the Administering Authority may exercise its discretion to refuse admission to the Scheme for any admission bodies with no subsumption commitment if this is considered appropriate to protect the interests of the Fund. However, for paragraph 1(d) admissions where the body

undertakes to meet the requirements of the regulations the Administering Authority must admit the eligible employees of that body to the Fund.

With effect from 1 April 2020 the Administering Authority is also prepared to admit new contractors on a "pooled pass through" basis which means that for funding and contribution rate purposes the admission body will be grouped (or pooled) with the Scheme employer. It will operate as follows:

- There will be no notional allocation of assets from the Scheme employer to the admission body on commencement of the contract
- On admission the contractor will pay the contribution rate payable by the Scheme employer (with any monetary secondary contributions converted to a % of pay as appropriate)
- Contributions will be set at each triennial valuation (and any other time as appropriate) based on the combined funding position and primary contribution rate for the group/pool (i.e. there will be no separate calculation of funding position or employer contributions for the admission body)
- There will be no payment due from or to the contractor on exit, with responsibility for funding its liabilities assumed to remain with the Scheme employer unless there is a transfer to another employer.

The contractor will be assumed to be liable for any strain costs or other payments due to the Fund where it grants additional pension under Regulation 31 and strain costs. All other experience will be shared between the members of the Scheme employer group/pool.

Should there be any need to provide a notional asset value for the contractor, e.g. for accounting under FRS102/IAS19, this will be on a pro rata basis, i.e. the group/pool's notional asset share will be allocated to the employers in the pool in proportion to their liabilities calculated on assumptions appropriate to the group's funding target.

A pooled pass through arrangement will be the default option for all new admissions under paragraph1(d) where the initial contract length is less than 5 years and there are fewer than 100 members transferring to the new admission body.

The Admission Body is required to have an "admission agreement" with the Fund, which sets out (in conjunction with the Regulations) the conditions of participation and which employees (or categories of employees) are eligible to be members of the Fund. The Administering Authority has a template admission agreement which it will generally expect to be entered into without amendment. This will include specific

provisions relating to pass through as outlined above. Details are available on request.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to a new employer, whether an admission body or otherwise, will be re-charged to the employer. These costs will include, where appropriate, the cost of actuarial advice relating to any risk assessment required under the Regulations (see next section).

Bonds, Indemnities and Guarantees

The Administering Authority will seek to minimise the risks that a new Admission Body might create for the Fund and the other employers in the Fund. These risks will be taken into account by the Administering Authority in considering the application for admission, and the Administering Authority may put in place conditions on any approval of admission to the Fund to minimise these risks, such as a satisfactory guarantee, indemnity or bond and a satisfactory risk assessment. An indemnity / bond is a way of insuring against the potential cost of the Admission Body failing by reason of insolvency, winding up or liquidation and hence being unable to meet its obligations to the Fund.

Admission bodies under paragraph 1(d)(i) of Part 3 of Schedule 2 to the 2013 Regulations (generally admissions as a result of a Best Value transfer), are required to carry out an assessment of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. This assessment has to be to the satisfaction of the Scheme employer (i.e. the employer letting the contract) and the Administering Authority. Where the Administering Authority is satisfied as to the strength of covenant of the Scheme employer, it will not usually require a minimum level of cover in order to be "satisfied" with the risk assessment, as the risk on premature termination will fall on the Scheme employer. the Administering Authority's policy is to seek actuarial advice in the form of a “risk assessment report” provided by the Fund’s Actuary which can be shared with the Scheme employer on the understanding that the Fund Actuary cannot provide advice to the Scheme employer. Based on this assessment, the Scheme employer and the Administering Authority should decide whether or not to require the admission body to enter into an indemnity or bond and if so at what level. The risk must be kept under review throughout the period of the admission and assessed at regular intervals and otherwise as required by the Administering Authority.

Where, for any reason, it is not desirable for a 1(d)(i) admission body to enter into an indemnity or body the admission body must secure a guarantee from the Scheme employer. In the event of unfunded liabilities on the termination of the admission, the Scheme employer's contribution rate to the Fund would be revised accordingly. In most cases it is expected that the Scheme employer will provide a subsumption commitment whereby the assets and liabilities of the outgoing admission body post-exit are "subsumed" into the Scheme employer's liabilities and notional pool of Fund assets.

Where the liabilities cannot be fully met by a guarantor or insurer, the Regulations provide that:

- the letting employer will be liable in an outsourcing situation; and
- in all other cases the liabilities will fall on all the other employing authorities within the Fund.

Other admission bodies are required to carry out an assessment of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. This assessment has to be to the satisfaction of the Administering Authority. The Administering Authority's policy is to seek actuarial advice in the form of a "risk assessment report" provided by the Fund's Actuary. Based on this assessment, the Administering Authority will decide whether or not to require the admission body to enter into an indemnity or bond and if so at what level. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or body the admission body must secure a guarantee from:

a) a person who funds the admission body in whole or in part;

b) a person who-

- (i) owns, or
- (ii) controls the exercise of the functions of, the admission body; or

c) the Secretary of State in the case of an admission body-

- (i) which is established by or under any enactment, and
- (ii) where that enactment enables the Secretary of State to make financial provision for that admission body.
- or
- (iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation

services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

Ultimately, an indemnity or bond or guarantee is designed to protect the Fund in the event that unfunded liabilities are present after the termination of an admission body.

When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund, either deferred benefits or immediate retirement benefits. Early retirements can, in particular, create a strain on the Fund and so give rise to unfunded liabilities.

In the event that unfunded liabilities arise that cannot be recovered from the admission body, the indemnity or bond provider or guarantor these will normally fall to be met by the Scheme employer in the case of paragraph 1(d) admission bodies or the Fund as a whole (i.e. all employers) in the case of other admission bodies. In this latter case the shortfall would normally fall on the employers pro-rata to their liabilities in the Fund. Unless the shortfall amount were material, the allocation of the shortfall to all employers in the Fund would be carried out at the next formal actuarial valuation. Alternatively, if the guarantor for the outgoing admission body was also a participant in the Fund, the outgoing admission body's assets, liabilities and the funding deficit could be subsumed by the guarantor within the Fund.

Funding Target

The funding target depends upon what will happen to the liabilities in respect of the employees of the employer on exit of that employer.

Subsumed liabilities

Where an admission body ceases its participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting

employer. Generally, if the subsuming employer is considered to be of sufficiently sound covenant and likely to participate in the Fund indefinitely, e.g. being one of the 5 main Councils, this will mean assuming continued investment in more risky investments than Government bonds.

New academies are currently considered to qualify as indefinite participants in the Fund with full taxpayers backing, as they have a guarantee from the Department for Education. However, this guarantee is subject to review and where the Administering Authority believes the guarantee is no longer sufficient to cover the risks posed by the number of academies in the Fund, the Administering Authority will review the approach taken to the Funding Target for new academies and any admission bodies for which an academy provides a subsumption commitment and also the default approach taken to the notional assets transferred to academies upon conversion.

For any new scheduled bodies joining the Fund, the Administering Authority may, without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- whether the employer is a part 1 Schedule 2 or Part 2 Schedule 2 employer and if the latter. The likelihood of new members joining the Fund
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to a scheduled body joining the Fund will be re-charged to the employer.

Orphan liabilities

Where an employer ceases its participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost

for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term, the returns achieved on the Fund's assets will be allowed for when calculating the employer's notional assets for the purpose of the tracking of any future surplus or deficit in relation to the orphan liabilities.

The Administering Authority ensures that it has sufficient investment in Government bonds to cover the orphan liabilities and at each triennial valuation the Fund Actuary notionally allocates assets to ensure the orphan liabilities are met in full, where those liabilities are measured by reference to the yield on gilts

Ongoing calculations for employers subject to the orphan admission body funding target will be carried out using assumptions which are intended to broadly target the eventual exit position.

Initial notional asset transfer

When a new employer commences in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets may be needed from the original employer to the new employer.

Unless a pass through approach applies, when a new admission body starts in the Fund, they will usually start as fully funded. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer (where required) is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. For new admission bodies the Administering Authority will only agree to a deficit transferring to the new admission where a subsumption commitment is in place from a long-term secure scheduled body or other appropriate security is in place. This share of Fund approach would normally apply to new scheduled bodies where

members are transferring from another employer in the Fund, such as new academies upon conversion to Academy status.

Unless specific instruction is received in relation to a new academy and the agreement is reflected in the Commercial Transfer Agreement, the Administering Authority's policy is that an unadjusted share of Fund approach is adopted by the Actuary in notionally re-allocating assets from the Local Education Authority to the academy on conversion in respect of the transferring liabilities subject to a maximum transfer of assets equal to the transferring liabilities. This unadjusted share of the Fund approach means there is no prior allocation of assets to fully fund any deferred and pensioner liabilities. The policy has been discussed and agreed with the 5 main Councils in the Fund which have education responsibilities.

Where the new employer will participate in a pool of employers, for example where a multi-academy trust has requested that its academies be treated as a single employer, the notional asset transfer would be to the relevant pool of employers.

In calculating the notional assets to transfer to a new employer the Actuary will consider the liabilities based on the confirmed benefits of the LGPS at the date of joining. However, for new employers joining after 31 March 2019 it may be necessary for the asset transfer to be revisited once the current uncertainties relating to the benefit structure of the LGPS from 1 April 2019 (see paragraph 7.12 above) are resolved.

Employer Contribution Rate

Initial Rate

When a new employer joins the Fund, unless a pass through approach is in place when the employer will pay the same contribution rate as the Scheme employer, the Fund's Actuary determines the initial employer contribution rate payable.

An interim contribution rate may be set pending a more accurate calculation by the Fund Actuary of the employer contribution rate payable. Currently the interim contribution rate is 20% of pay. The Administering Authority will change these interim contribution rates following each triennial Actuarial Valuation and at any other time at its discretion.

When a new academy joins a multi–academy trust where a single contribution rate applies, it will pay a minimum of the employer's contribution rate applicable to the

Trust until the next triennial Actuarial Valuation at which time the contributions for the Trust will be reviewed. The Trust may elect to increase the contributions for all employers in the Trust before the next triennial Actuarial Valuation where the addition of a new academy is likely to lead to an increase as advised by the Fund's actuary. In other cases, the Fund's actuary will calculate an individual contribution rate for the new employer to be paid from commencement.

The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities
- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary and following discussion with the ceding employer as appropriate.

Review of Employer Contribution Rates

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation the contributions paid by each employer in the Fund are reviewed and may be increased or reduced.

The employer contributions payable by employers may also be reviewed outside of the triennial Actuarial Valuations where there has been a material change of circumstances, such as the basis of admission changing from open to closed or where it otherwise appears likely that the admission body may exit from the Fund, as permitted by Regulation 64(4). In addition, in exceptional circumstances contributions may be reviewed between valuations where this is indicated in the Rates and Adjustments Certificate.

The Administering Authority monitors the active membership of closed admission bodies and will commission a valuation from the Actuary under Regulation 64(4) where it has reason to believe that the admission body may become an exiting employer before the next triennial Actuarial Valuation.

3. Cessation of participation

Where an employing authority ceases participation, whether by ceasing to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or having no active members contributing to the Fund, a cessation valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

The assumptions adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target on exit will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

For subsumed liabilities the exit valuation will generally anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities, i.e. if the outgoing employer has a subsumption commitment from another employer in the Fund, the Administering Authority's policy is that the funding target for assessing the liabilities on exit is the ongoing funding target appropriate to the subsuming body, updated for financial conditions at the exit date.

In exceptional circumstances the funding target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary.

Where any of the liabilities are transferring to a successor body, e.g. on a contract being re-let, the funding target of that successor body will not influence the assumptions adopted for the exit valuation and any shortfall between the value of the liabilities assessed on the appropriate exit basis and the funding target for the successor body (e.g. if this is being set up fully funding on an orphan admission body funding target) will generally be assumed to be met by the letting authority unless otherwise agreed between the parties, to the satisfaction of the Administering Authority.

For exits on or after 1 April 2019 the Actuary will add 1% to the value of the exiting employer's liabilities as a prudent margin given the possibility of additional liabilities arising due to the McCloud/Sargeant case and GMP indexation and equalisation. However, the Administering Authority will not seek to recalculate the exit liabilities for exits on or after 1 April 2019 where the exit deficit (or credit) has already been paid as at the date this Statement comes into effect.

In determining this margin for prudence the Administering Authority has had regard to guidance prepared by the SAB[1] and the advice of the Fund Actuary. It will be kept under regular review as further information on the McCloud/Sargeant case becomes available.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position disclosed by the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the outgoing employer.

However, where agreed between the parties the deficit may be transferred to the subsuming employer or guarantor, in which case it may be possible to simply transfer the former admission body’s members and assets to the subsuming body, without needing to crystallise any deficit. Where the guarantee only covers the exit deficit, i.e. it does not extend to subsumption of the exiting employer's assets and liabilities, it is assumed that the departing employer's liabilities will still become orphaned within the Fund.

If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity. These will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor or successor body within the Fund.

Any deficit would normally be levied on the departing employer as a single capital payment although, under exceptional circumstances, the Administering Authority may, at its sole discretion, allow phased payments as long as this is permitted under the Regulations (currently Regulation 64).

At successive triennial Actuarial Valuations the Actuary will allocate assets within the Fund equal to the value of the orphan liabilities so that these liabilities are fully funded. This may require a notional reallocation of assets from the ongoing employers in the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer

Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

(a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)

(b) the proportion of the surplus which has arisen because of the value of the employer's contributions

(c) any representations made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the 2013 Regulations, and

(d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

For exits where there is a subsumption commitment and hence the ongoing funding target appropriate to the subsuming employer is adopted on exit, the Administering Authority's default approach will be to pay an exit credit which is the lower of the surplus amount and the amount of contributions paid by the exiting employer.

For exits where there is no subsumption commitment and hence the orphan (i.e. gilts-based) funding target will apply, the Administering Authority's default approach will be to pay an exit credit equal to the amount of the surplus on exit less any costs incurred by the Administering Authority in relation to the exit.

Multi-academy trusts

Where an employer within a multi-academy trust (MAT) fails, unless that academy is an employer in its own right there is no power within the Regulations for the Administering Authority to commission an exit valuation under Regulation 64, unless it considers that the MAT itself may become an exiting employer and so a valuation under Regulation 64(4) is appropriate. In that case, where an employer within the MAT has failed, irrespective of whether or not the Department for Education guarantee applies, the liabilities of the exiting academy will fall to be funded by the remaining employers within the MAT rather than becoming orphaned liabilities. The Administering Authority may direct the Fund Actuary to take this failure into account and adjust the contributions payable by the remaining employers within the MAT at the next triennial Actuarial Valuation. The Administering Authority may also direct the Fund Actuary to carry out a valuation of the liabilities of the exiting academy in the fund at the date of exit in order to assess the effect of its failure ion the remaining employers within the MAT, and ensure the remaining MAT employers (and any new employers joining the MAT) are aware to the extent of these liabilities.

Where employers within a MAT are individual scheme employers for the purpose of the Regulations, and an academy within the MAT leaves or fails, an exit valuation will be carried out as at the date of exit. Where there is no successor body and the Department for Education guarantee does not make good any shortfall on exit, the Administering Authority would seek to recover any unpaid deficit from the remaining employers within the MAT where those employers participate in the Fund. Rather than requiring a lump sum payment, the Administering Authority may instead act on the assumption that the remaining MAT employers have provided a subsumption commitment, which includes subsumption of the unpaid deficit which would then fall to be recovered from ongoing contributions. In that case the Administering Authority will instruct the Fund Actuary to allocate the assets and liabilities of the outgoing academy across the remaining employers in the MAT.

Where academies move between multi-academy trusts, for example where a MAT winds up and its academies transfer into different MATs (whether existing MATs within the Fund or newly-established MATs), the Administering Authority may direct the Fund Actuary to carry out a valuation of the liabilities of any academy moving between MATs and of all academies within the exiting MAT. Where the exiting MAT is the scheme employer, and hence an individual funding position has not been maintained for the constituent academies, the assets notionally allocated to each of its academies will be derived by assuming each has the same funding level as the

MAT as a whole. The calculation of the assets and liabilities in these circumstances is to ensure that both the former and new MAT are aware of the value of the assets and liabilities transferring and to ensure that the residual position of the exiting MAT (if any of its liabilities are not transferring to a new academy or MAT) is correctly assessed for the purpose of invoking the Department for Education guarantee.

Suspension notices

Regulation 642A permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice. The Administering Authority considers that it is appropriate to exercise that discretion in relation to Town and Parish Councils where there is a reasonable expectation that a member will join in the near future (e.g. before the next triennial Actuarial Valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer. Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

4. Responsibilities of employers in the Fund

Individual employers, Multi Academy Trust or the Department for Education will pay for any legal and actuarial costs incurred by the Fund on their behalf.

Employers should have regard to the Administering Authority's administration strategy and their responsibilities as set out in the Funding Strategy Statement at all times.

All employers need to inform the Administering Authority of any changes to their organisation that will impact on their participation in the Fund. This includes changes of name or constitution or mergers with other organisations or other decisions which will or may materially affect the employer's Fund membership, including but not limited to:

- an admission body closing to new entrants
- a scheduled body setting up a wholly owned company to employ new staff

- merging with another organization, whether a participant in the Fund or not (e.g. colleges merging under the Area Review process or housing companies merging)
- an application by a 6th form college to become a 16-19 academy, including whether successful or not
- a material change in the funding of the organization including a reduction in grants from local or central government or a shift in the balance of funding
- a large scale redundancy exercise which could materially reduce the employer's active membership
- any intervention by, or voluntary undertaking provided to, the appropriate regulator

Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

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Subject: Register of Breaches of Law

Summary statement:

In accordance with the Public Service Pensions Act 2013, from April 2015 all Public Service Pension Schemes come under the remit of the Pensions Regulator.

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
(b) the failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

A Register of Breaches of Law is therefore maintained in accordance with the Pensions Regulators requirements and WYPF Breaches procedure.

Recommendation

It is recommended that the Local Pension Board note the entries on the Register of Breaches of Law.

Rodney Barton
Director

Portfolio

Report Contact Caroline Blackburn
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Overview & Scrutiny Area

1. Background

1.1 Section 70 of the Pensions Act 2004 (the Act) imposes a requirement to report a matter to the Pensions Regulator as soon as reasonably practicable where a person has reasonable cause to believe that:

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

(b) the failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

1.1 This requirement applies to:

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

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

2. Reporting Breaches Procedure

2.1 A record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). WYPF maintains a record of all reported or unreported breaches.

2.2 The Register of Breaches of Law (reported or otherwise) is provided to each Joint Advisory Group meeting, and this will also be shared with the Pension Board.

4 Breaches from April 2019

4.1 The entries on the Register of Breaches for 2019/20 relate

- to the late payment of contributions, and
- Annual Benefit Statements not all issued by 31 August 2019 (99.6% were issued on time).

5 Recommendations

It is recommended that the Local Pension Board note the entries and action taken on the Register of Breaches.

6 Appendix

- Appendix A – Register of Breaches 2019/20

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Appendix A

WYPF Breaches of the Law 2019 - 2020

Date	Category (eg administration, contributions, funding , investments)	Pensions Regulator code of practice	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported/Not reported	Outcome of report and or investigations	Outstanding Actions
Sept 19	**Administration Issue of Annual Benefit Statements (ABS)**	189	Scheme regulations require an ABS be provided to each active member by the 31 August each year At the 31 August 18 99.6% of statements had been sent out (91686/91973)	0.4% of active members will not have received their ABS within prescribed time limits	Only accurate ABS are sent out. Work is continuing to release ABS to be sent out as soon as the "block" has been cleared.	Not reported	Due to the improvement in the performance and the relative low numbers this breach is not regarded as of material significance	Outstanding ABS continue to be issues as soon as the ABS block has been resolved
April 19	**Administration Maintaining contributions**	147	Employee's pension contributions must be paid to the manager of the scheme by the 19th day of the month following deduction or by 22nd day if paid electronically. **Please see schedule below for details of employers who failed to make payment by the appropriate date.**	Contributions not received by the scheme within the prescribed timescales	**Immediate action**: All employers have a designated business partner who contact each employer to make them aware of any late payment. Subsequent late payments incur an admin fee and are notified that further late payments may be reported to the Pensions Regulator. **Continuing Action:** Employers are closely monitored. Records of each employer who fail to make payment each month are maintained along with details of the number of late payment occasions.	Not reported	All outstanding payments are chased up and all payments received	None

Appendix A

WYPF Breaches of the Law 2019 - 2020

Employers who failed to pay make pay over employees contributions by the appropriate date - April 2019 onwards

Month	Employer	Date contributions due	Date paid	Value of late contributions	No of times late in last 6 months prior to this month	No of times late in last 12 months prior to this month
April 19	Basketball England	17/05/19	05/07/19	924.76	0	0
	Pool Parish Council	17/05/19	14/06/19	291.34	0	0
	Carroll Cleaning (Whetley)	17/05/19	11/06/19	73.67	0	0
	Carroll Cleaning (Wakefield)	17/05/19	11/06/19	27.32	0	0
	Carroll Cleaning (Holy Trinity)	17/05/19	11/06/19	51.72	0	0
	Carroll Cleaning (Birkenshaw Primary)	17/05/19	11/06/19	41.77	0	0
	Carroll Cleaning (Lee Mount)	17/05/19	11/06/19	16.59	3	6
	Carroll Cleaning (Thornbury)	17/05/19	11/06/19	28.43	0	0
	Carroll Cleaning (Frizinghall)	17/05/19	11/06/19	39.47	0	0
	Carroll Cleaning Lapage Primary)	17/05/19	11/06/19	56.86	0	0
	Carroll Cleaning (Nessfield)	17/05/19	11/06/19	207.92	0	0
	Carroll Cleaning	17/05/19	11/06/19	397.14	0	0
	Enviroserve (Calder High)	17/05/19	02/07/19	970.94	6	9
May 19	Basketball England	19/06/19	05/07/19	924.76	2	2
	Community Accord	19/06/19	11/09/19	264.69	3	4
	Leeds Housing	19/0619	26/06/19	887.34	0	0
	Aspens Services Ltd Featherstone	19/06/19	05/07/19	478.09	1	1
	Mellors (was Aspens Oasis)	19/06/19	05/07/19	881.12	1	1
	Mellors (was Aspens Appleton)	19/06/19	05/07/19	1413.20	1	1
June 19	Community Accord	19/07/19	11/09/19	264.69	4	5
	Fleet factors Ltd	19/07/19	24/07/19	201.77	2	3
	Aspens services Ltd Featherstone	19/07/19	23/07/19	533.42	2	2

Appendix A

WYPF Breaches of the Law 2019 - 2020

	SPIE LTD	19/07/19	22/07/19	1166.69		
	Mellors (was Aspens Oasis)	19/07/19	23/07/19	904.99	2	2
	Mellors (was Aspens Appleton)	19/07/19	23/07/19	1369.24	2	2
	Arcadis (UK) Ltd	19/07/19	06/08/19	6565.56	0	0
	Carlton Bolling	19/07/19	23/08/19	37551.71	0	0
July 19	Groundwork Leeds	19/08/19	23/08/19	1541.91	0	0
	Community Accord	19/08/19	11/09/19	264.69	5	6
	Aspens services Ltd Featherstone	19/08/19	06/09/19	537.14	3	3
	Consultant Cleaners Ltd WY Fire	19/08/19	28/08/19	102.47	0	0
	Mellors (was Aspens Oasis)	19/08/19	06/09/19	881.12	3	3
	Mellors (was Aspens Appleton)	19/08/19	06/09/19	1366.88	3	3
	Consultant Cleaners LTD (Westborough high school)	19/08/19	28/08/19	374.57	0	0
	Carlton Bolling	19/08/19	23/08/19	29615.69	1	1
August 19	Basketball England	19/09/19	01/10/19	924.75	1	1
	Aspens Services Ltd Featherstone	19/09/19	03/10/19	177.61	4	4
	Mellors (was Aspens Oasis)	19/09/19	03/10/19	193.34	4	4
	Mellors (was Aspens Appleton)	19/09/19	03/10/19	1363.01	4	4
Sept 19	Leeds Society for the Deaf and Blind	19/10/19	21/10/19	398.59	1	1
	Innovate Services Ltd (Crossflats)	19/10/19	22/10/19	547.10	2	1
Oct 19	Pool Parish Council	19/11/19	22/11/19	291.34	0	1
Nov 19	Bishop Wheeler	19/12/19	23/12/19	46748.80	0	0
	Mountain Healthcare Ltd	19/12/19	06/01/20	308.23	0	0

Appendix A

WYPF Breaches of the Law 2019 - 2020

Dec 19	Interaction & Com	19/01/20	24/01/20	20435.22	0	0

January 20	Community Accord	19/02/2020	20/02/2020	315.84	1	5
	Fleet Factors	19/02/2020	20/02/2020	176.81	1	3
	Aspens Services Ltd	19/02/2020	20/02/2020	174.02	3	5
	Mountain Healthcare Ltd (WY Police)	19/02/2020	20/02/2020	308.23	2	2
	Aspens Ltd (Oasis)	19/02/2020	20/02/2020	200.95	3	5
	Aspens Services Ltd	19/02/2020	20/02/2020	1,378.95	3	5

Feb 20	Bingley Grammar School	19/03/2020	20/03/2020	26,260.88	1	0
	Leeds C.A.B.	19/03/2020	24/03/2020	22,087.92	2	2
	Innovate Services Ltd (Crossflats)	19/03/2020	20/03/2020	568.15	2	4

March 20	University of Bradford	19/04/2020	20/04/2020	236736.01	0	0
	Huddersfield New College	19/04/2020	21/04/2020	27093.23	0	0
	Aspire -I	19/04/2020	20/04/2020	6399.36	0	0
	Leeds Housing Concern	19/04/2020	22.04.2020	820.51	0	0
	Outwood	19/04/2020	20/04/2020	72229.25	0	0
	Outwood	19/04/2020	20/04/2020	5741.86	0	0
	Outwood	19/04/2020	20/04/2020	3956.65	0	0

WYPF Breaches of the Law 2019 - 2020

	Outwood	19/04/2020	20/04/2020	5979.54	0	0
	Consultant Cleaners	19/04/2020	30/04/2020	356.64	0	0
	Outwood	19/04/2020	20/04/2020	5,141.49	0	0
	Outwood	19/04/2020	20/04/2020	6,037.16	0	0
	Outwood	19/04/2020	20/04/2020	14,213.89	0	0
	Outwood	19/04/2020	20/04/2020	24,213.89	0	0
	Outwood	19/04/2020	20/04/2020	4,788.75	0	0

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

D

Subject: Local Government Pension Scheme Regulations update

Summary statement:

This report updates the Local Pension Board on changes to the Local Government Pension Scheme (LGPS) 2014 and provides information on associated matters.

Recommendation

It is recommended that the Local Pension Board note this report

Rodney Barton
Director

Portfolio

Report Contact: Tracy Weaver
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Email: tracy.weaver@wypf.org.uk

Overview & Scrutiny Area

1 Background

1.1 The career average Local Government Pension Scheme (LGPS) was introduced on 1 April 2014.

1.2 Since the introduction of the new LGPS there have been a number of consultations on proposed changes to the LGPS, following which amendment regulations have been issued.

2 Consultation on Fair Deal – Strengthening pension protection

2.1 On 10 January 2019 Ministry of Housing, Communities and Local Government (MHCLG) issued a consultation on Fair Deal – Strengthening pension protection.

2.2 The consultation closed on 4 April 2019 and we are still waiting for MHCLG to publish its response.

3 Consultation: Local valuation cycle and the management of employer risk

3.1 On 8 May 2019 MHCLG issued a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk'.

3.2 The consultation closed on 31 July 2019.

3.3 MHCLG received around 280 responses and we expected them to publish their response in the autumn of 2019.

4 The Local Government Pension Scheme (Amendment) Regulations 2020

4.1 The Local Government Pension Scheme (Amendment) Regulations 2020 were laid before Parliament on 27 February 2020 and came into force on 20 March 2020 but have effect from 14 May 2018.

4.2 These regulations provide administering authorities with a discretion to determine the amount of exit credit which should be payable to an employer leaving the LGPS with a surplus.

4.3 The administering authority, in exercising its discretion, to determine the amount of any exit credit must have regard to the following factors:-

- the extent to which there is an excess of assets in the fund relating to that employer over the liabilities
- the proportion of this excess of assets which has arisen because of the value of the employer's contributions
- any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, the Scheme employer, and
- any other relevant factors.

5 Other LGPS matters

5.1 McCloud and valuation guidance

It was reported on 21 December 2018 that the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'. Following the judgment, on 30 January 2019 the Government published a written statement that paused the HMT cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. On 8 February 2019, LGPS England & Wales Scheme Advisory Board (SAB) confirmed it had no option but to pause its own cost management process pending the outcome of McCloud.

On 27 June 2019 the Supreme Court, denied the Government's request for an appeal in the McCloud case in respect of age discrimination and pension protection.

SAB has now set up two working groups to work with MHCLG in developing and implementing the LGPS McCloud remedy.

5.2 Consultation on restricting exit payments

On 10 April 2019 HM Treasury (HMT) opened a 12 week consultation called 'Restricting exit payments in the public sector: consultation on implementation of regulations'. The consultation documents can viewed on the non-scheme consultation page of www.lgpsregs.org. The consultation closed on 3 July 2019.

HMT received approximately 600 responses, and are still analysing these.

5.3 Scheme Advisory Board's Good Governance Report

Last year SAB commissioned Hymans Robertson to prepare a report on the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing governance models which can strengthen LGPS going forward.

On 31 July 2019 SAB published this report, which can be viewed at http://lgpsboard.org/images/PDF/GGreport.pdf.

The phase two report from the Working Groups to SAB was published in November, which can be viewed at http://www.lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf

SAB have now approved resources for phase three of this project. This phase will determine:

- The outcome measures it will use
- The format of this work, and
- A timetable for implementation.

5.4 Third Tier employers

In June 2018 2018 Aon presented members of SAB with a summary of the final draft of its report to review the current issues in relation to third tier employers participating in the LGPS.

The report did not make any recommendations, instead, it outlined a range of issues raised by stakeholders and how they envisage these concerns being resolved. A working group has been set up by SAB but work has been put on hold due to competing priorities, in particular, work on the Board's cost cap arrangement.

5.5 LGPS Annual Report 2019

On 22 May 2020 SAB published the LGPS Annual Report 2019 and below are some key LGPS highlights:

- The total membership of the LGPS grew by 37,000 (0.6%) to 5.9m members in 2019 from 5.8m in 2018.
- The total assets of the LGPS increased to £291bn (a change of 5.9%). These assets were invested in pooled investment vehicles (66%), public equities (17%), bonds (7%), direct property (3%), as well as other asset classes (7%).
- As at the 31st March 2019, the LGPS liabilities were estimated at £291bn indicating an overall funding level of 98%.
- The Local Authority return on investment over 2018/2019 was 6.6%. This was reflective of the market conditions during the year and set against the UK Return of 6.4%.
- The scheme maintained a positive cash-flow position overall, including investment income.
- Over 1.7m pensioners were paid over the year

5 Other matters

5.1 Pensions Schemes Bill reintroduced

In the Queen's Speech on 19 December 2019 it was announced that the Government would reintroduce the Pension Schemes Bill. The Bill will strengthen the Pension Regulator's powers, create a legislative framework to support pension dashboards and introduce regulations covering the right to a transfer.

The Bill has been introduced in the House of Lords and the second reading was on 28 January 2020 and was moved to committee stage. Line by line examination of the Bill took place during the final day of committee stage on 4 March 2020. The report stage is yet to be scheduled.

5.2 Spring Budget

On 11 March 2020, the Chancellor of the Exchequer presented his Budget. He announced:

- Tapered annual allowance - From 6 April 2020, both threshold income and adjusted income increased by £90,000 to £200,000 and £240,000 respectively. In addition, the minimum tapered annual allowance decreased from £10,000 to £4,000.
- Lifetime allowance (LTA) - The LTA increased in line with the consumer price index to £1,073,100 with effect from 6 April 2020.

5.3 **Money and Pensions Service - Pensions dashboard update**

On 8 April 2020, the Money and Pensions Service (MaPS) published Pensions Dashboard Programme – Progress Update Report. The MaPS intends to release a progress report every six months. The first report sets out:

- the pensions dashboards goals and some of the challenges associated with delivery
- that Primary legislation will provide certainty about the requirements placed on schemes and the timescales for compliance
- the importance of secure and accurate identity verification
- the challenge of specifying a consistent set of data standards so that information from different schemes can be displayed consistently
- the need to identify when in the staged on-boarding process the dashboards should be made available to the public
- the focus of the Pensions Dashboards Programme over the coming months.

The MaPs published two further papers in April 2020:

- Pensions Dashboards Data Definitions - Working Paper lists the set of data items that could be included in the dashboards data standards. This covers both data items that are needed to find a member's pensions and those that would be useful for users to see on a dashboard. The list will be developed further in response to user and sector research.
- Options for achieving early breadth of coverage are considered in Pensions Dashboards Data Scope - Working Paper. This paper confirms that initial dashboards will only include information that is already available on annual statements. This should enable the maximum number of pension schemes to onboard at an early stage. More information is likely to be included in pensions dashboards in the future.

6 **Recommendation**

It is recommended that the Local Pension Board note the report.

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

E

Subject: WYPF 2020/21 Service Budgets.

Summary statement:

Between December 2019 and January 2020 we carried out a zero base cost analysis of services resulting in a proposed gross base budget of £15.20m for 2020/21. In order to maintain WYPF cost performance going forward we looked at a number of cost savings activities to manage cost down to £43 per member. The outcome of this work is the budget of £14.85m that was presented to the Joint Advisory Group (JAG). Our savings activities will reduce printing costs, increase the use of digital technology resulting in increased capacity, service efficiency and cost reductions.

The latest government data for 2018/19 shows WYPF having the lowest total cost at £34.46. The 2nd lowest LGPS fund Nottinghamshire at £65.91. The latest WYPF project cost per member of £41.40 would still be £24 below Nottinghamshire (39% cheaper than Nottinghamshire). Based on this analysis WYPF will likely retain the 1st spot in 2019/20 and 2020/21.

Recommendation:

1. To note the total service budget of £14.85m approved for 2020/21 by the Joint Advisory in January 2020.
2. To note the total pension cost per member of £34.46 for 2018/19 (2017/18 £36.45) making WYPF the lowest cost LGPS scheme for 2018/19.

Rodney Barton
Director WYPF

Portfolio:

Report Contact: Ola Ajala
Financial Controller WYPF
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E-mail: ola.ajala@wypf.org.uk

Overview & Scrutiny Area:

SUMMARY

In accordance with Local Government Pension Scheme Regulations, costs of managing LGPS pension funds must be charged to pension fund accounts and not to local authorities' general fund accounts. The cost of services reported in this report will be charged to WYPF accounts. The budgets in this report will deliver pension administration services to over 430,000 pension scheme members, made up of 293,000 WYPF and 126,000 shared service partner members. We support over 800 active employers. The same resource will be used to manage over £13bn WYPF investment assets.

The number of partners in our pension shared cost service continue to grow, increasing from 7 two years ago to 19 (WYPF, Lincolnshire, Hounslow LGPS and 16 fire services). More plan to join us in 2020/21. Our service strategy is to maintain our service quality and cost performance, not necessarily the lowest cost in all areas, but a balance of cost and performance, as the quality of service is important to both employers and individual members.

1. BACKGROUND

2020/21 Service Budgets

1.1 In January 2020 a budget of £14.85m was set by JAG for 2020/21, an increase of £0.22m on 2019/20 budget. The zero base budgeting work carried out by officers using current activity data resulted in a budget of £15.19m, this figure was reduced down to £14.85m by a number of savings proposals.

TABLE 1: WYPF ALL SERVICES	2018/19 Full Year Outturn	2019/20 BUDGET	2019/20 FORECAST DEC PD09	PD09 VARIANCE OVER(-) / UNDER(+)	2020/21 DRAFT BDGT ZERO BASED	2020/21 DRAFT BDGT IF CAPD @ £43 PER MBR
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
WYPF INVESTMENTS	4,800	6,713	6,513	200	7,045	6,699
WYPF OVERSIGHT + GOVERNANCE	782	905	1,024	-119	1,046	997
WYPF PENSION ADMIN	4,423	4,606	4,589	17	4,899	4,909
CHARGED TO WYPF ACCOUNT	**10,005**	**12,224**	**12,126**	**98**	**12,990**	**12,605**
OTHER INCOME	196	218	271	-53	96	96
CHARGED TO SHARED SERVICES	1,793	2191	2,100	91	2,100	2,150
TOTAL SPEND	**11,994**	**14,633**	**14,497**	**136**	**15,186**	**14,851**
SF3 COST PER MEMBER	**34.46**	**42.85**	**41.40**	**-**	**44.35**	**43.00**

1.2 For 2020/21 we are targeting printing costs and postage for savings using a new web services “MyPension” to provide newsletters and documents to members. We are also bringing in the next phase of pension monthly data return and improved record maintenance for active members, to improve service automation and efficiencies. These activities are targeted to deliver savings of £0.38m to maintain our total cost per member at £43.

1.3 The 2020/21 budget is focused on growing pension administration shared service, investment pooling, increased service capacity, improved quality, strengthen regulatory compliance and improved data governance. These areas continue to have increased regulatory compliance monitoring and continue to be heavily regulated by government, and as such our activities are geared to maintain and improve performance on regulatory compliance.

Shared service cost per member

1.4 Our cost performance target on shared service cost per member for pension administration shared service is £17.00. The original estimate for 2020/21 will give us a projected shared service cost per member of £16.74 for 2020/21, this cost gives us a headroom of £0.26 for 2020/21. Our savings activities will review printing and data management activities; and increasing shared service partners should yield some savings to push this cost down.

Relative cost of service

1.5 Our performance within LGPS using comparative data for local government pension schemes collected by MHCLG is shown below. The data shows that for 2018/19 WYPF total cost of £34.46 is the lowest total cost within LGPS funds in England and Wales. Whilst, the average cost for all funds went up from £205.25 to £222.27 between 2017/18 and 2018/19, our cost went down by £1.99 from £36.45 to £34.46.

TABLE 2:	**Cost per scheme member**						
Total number of funds 87	**WYPF**					**All Local authority Pension Funds**	
	2018/19		**2017/18**			**2018/19**	**2017/18**
	Rank	**Cost per Member**	**Rank**	**Cost per Member**		**Cost per Member**	**Cost per Member**
Pensions Administration	**6th**	£15.23	**7th**	£14.05		£22.28	£20.85
Investment Management	**1st**	£16.53	**1st**	£20.48		£189.59	£175.44
Oversight & Governance	**8th**	£2.69	**5th**	£1.92		£10.39	£8.96
Total	**1st**	£34.46	**1st**	£36.45		£222.27	£205.25

1.6 Table 3 below shows the 2nd placed LGPS funds for 2017/18 and 2018/19. In each financial year the gap between WYPF total cost per member and Nottinghamshire the 2nd placed LGPS fund, total cost per member is over £15. In 2016/17 there is a cost

gap of £15.07 and in 2017/18 has gone up to £19.13. For the past two years the position for 2nd has been held by Nottinghamshire, with East Riding in 3rd place.

TABLE 3:	Cost per scheme members for 2nd best LGPS funds 2018/19 and 2017/18							
	Total		Pension Administration		Investments		Oversight	
Nottinghamshire Pension Fund	2018/19		2018/19		2018/19		2018/19	
	2nd	£65.91	5th	£15.41	3rd	£38.96	44th	£11.74
Nottinghamshire Pension Fund	2017/18		2017/18		2017/18		2017/18	
	2nd	£55.58	10th	£14.80	3rd	£37.09	13th	£3.70

Summary revenue account 2019/20 and 2020/21

1.7 Table 4 below provides a summary of the combined Pensions Administration and Investment Management budgets by expenditure type.

TABLE 4: WYPF ALL SERVICES	2018/19 Full Year Outturn	2019/20 BUDGET	2020/21 DRAFT BDGT ZERO BASED	2020/21 ORIGINAL BDGT
	£000	£000	£000	£000
Expenditure				
Accommodation	£337	291	369	375
Actuary	£249	200	300	297
Computer	£755	763	1,152	1,071
Contingency	0	0	0	378
Employees	£7,062	8,628	8,167	8,114
Internal Recharge	£452	412	456	218
Other Running Costs	£1,277	1238	1,367	1,255
Transaction Costs	1,311	2,500	2,725	2,500
Printing & stationery	552	600	662	405
	11,995	**14,632**	**15,198**	**14,613**
Paid for				
Charge to WYPF Account	-10,005	-12,225	-13,002	-12,605
Other Income	-196	-217	-96	-96
Shared Service Income	-1,793	-2,190	-2,100	-2,150
	-11,994	**-14,632**	**-15,198**	**-14,851**

Accommodation
We have had issues with heating and cooling systems in Aldermanbury House and we have worked with our agents MJMapp and St Brides to resolve most of these issues. We have put together a budget of £375k to pay rent, service charges and pay our share of planned maintenance for 2020/21.

Actuarial costs
Compliance, regulatory, and covenant work has increased, we have continued to manage this area of cost down, by providing Aon our actuary with monthly investment valuation, cashflow, and employer data; and maintaining good quality member and employer data. We have reviewed costs in this area and implemented an improved works order process. A budget of £297k is considered to be adequate.

Computer costs
We have increased budget provision in this area based on existing IT system contracts, planned IT projects, and equipment replacements. We are replacing all our computer servers and providing additional web services. These investments will increase service capacity, improve resilience and deliver increased service automation and savings. In 2020/21 a budget of £1,071k is provided.

Contingency
A service contingency provision of £378k is made for 2020/21 and will be allocated when needed.

Employee costs
For 2020/21 a budget of £8,114k is provided based on approved posts and grades in December 2019. This budget will be reviewed once the new structure being consulted on is released by Bradford.

Recharges from Bradford
This budget head covers Bradford ICT, Legal Services, Internal Audit, Corporate Services and Central Mailroom. £456k budget provision for 2020/21 is based on current cost model provided by Bradford.

Other running costs
This budget head covers the cost of specialist analytical services, independent performance services, UK and overseas tax reclaim activities, external audit fees, insurance, legal fees, office furniture, communication facilities, office phones and a number of low value items. A budget of £1,255k is provided for 2020/21.

Transaction costs
This is the cost of buying and selling financial assets – brokerage fees, statutory stamp duty and other fees. This budget head is difficult to forecast as it is driven by market movement and the need to manage investment strategies accordingly. A budget of £2.5m is provided for 2020/21.

Printing and postage
In 2020/21 there is a budget provision of £405k, this budget area is targeted for savings of £195k, by using our new web service "MyPension" to deliver documents and newsletters to our members.

Paid for:

WYPF
This is the amount charged to our account from the total spend, the budgeted charge to our account for 2020/21 is £12,605k.

Other Clients
This is the total recharges for IDRP work, teachers' compensation costs, recharge for Northern Pool work (GLIL) and a small recharge to Bradford Council for treasury services, total budgeted income of £96k for 2020/21.

Shared Cost Service Partners
This is the total budget for recharges to Lincolnshire Pension Fund, Hounslow Pension Fund, and 16 fire authorities, budget of £2,150k for 2020/21.

2. OTHER CONSIDERATIONS
None

3. FINANCIAL & RESOURCE APPRAISAL
The Council is required by law to produce an audited annual financial report for WYPF within the Council's financial statement. Information in this report will be used in WYPF financial statement for 2020/21. All financial implications are included in the body of this report and there are no other financial implications.

4. RISK MANAGEMENT AND GOVERNANCE ISSUES
Budget monitoring is key element of our risk management and control, this report allows management to report financial activities, planned expenditure and income; and our overall strategy for cost control and performance to the Joint Advisory Group.

5. LEGAL APPRAISAL
There are no other legal issues.

6. OTHER IMPLICATIONS
None

7. NOT FOR PUBLICATION DOCUMENTS
None

8. RECOMMENDATIONS

8.1 To note the total service budget of £14.85m approved for 2020/21 by the Joint Advisory in January 2020.

8.2 To note the total pension cost per member of £34.46 for 2018/19 (2017/18 £36.45) making WYPF the lowest cost LGPS scheme for 2018/19.

9. APPENDICES

None

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

F

Subject: Training, Conferences, Seminars

Summary statement:

The training of Pension Board members to understand their responsibilities and the issues they are dealing with is a very high priority. Details of training courses, conferences and seminars listed may assist Board Members.

Recommendation

Consideration is given to attendance by Board Members at the events in Section 1 and members note the requirement to complete the Pension Regulators toolkit training.

Rodney Barton
Director

Report contact: Caroline Blackburn
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Portfolio:

Overview & Scrutiny Area:

1. Training Events

1.1 If any Pension Board member would like any specific training through one to one meetings with the in-house team, then this can be arranged.

1.2 Pension Board members should consider the following events.

LGPS National Knowledge Assessment
For Members who have not yet taken the assessment please find the link to the LGPS National Knowledge assessment – here

LAPF Strategic Investment Forum
26-27 August 2020 The Grove Hotel, Hertfordshire

PLSA Conference
14-16 October 2020, ACC Liverpool

LAPFF conference
2-4 December 2020

LGC Investment & Pensions Summit **New date*
*3-5 March 2021 The Royal Armouries Museum, Leeds

If you would like to attend any of these events or any other event you become aware of please let the Technical and Development Manager (Caroline Blackburn) know so arrangements can be made to book a place.

Members can also make use of web based training.

Pensions Regulator toolkit

It is the intention that all Pension Board members carry out the Pension Regulators toolkit training. Once completed a copy of the completion certificate should be given to the Technical and Development Manager.

The Trustee toolkit is a free, online learning programme aimed at trustees of occupational pension schemes.
The Trustee toolkit includes a series of online learning modules and downloadable resources developed to help you meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004.
https://trusteetoolkit.thepensionsregulator.gov.uk/

Other online training is available at **Aberdeen Standard Life Learning Gateway**
Web based training provided by Aberdeen Standard Life
https://www.aberdeenstandard.com/en/uk/adviser/investment-tools/learning-gateway

2. Recommendations

Consideration is given to attendance by Board Members at the event in Section 1

Pension Board Members note the requirement to complete the Pension Regulators toolkit training.

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020.

G

The appendix to this report is a 'NOT FOR PUBLICATION' item as it falls within information relating to the financial and business affairs of the West Yorkshire Pension Fund as defined by Schedule 12A of the Local Government Act 1972 as amended

Subject: Notes of West Yorkshire Pension Fund (WYPF) Investment Advisory Panel (IAP) Briefing held on 30 April 2020 following cancellation of the IAP meeting of 21 April 2020.

Summary statement:

The role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The **Not for Publication** notes of the briefing meeting of WYPF Investment Advisory Panel on 30 April 2020 are appended to this report and are submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Recommendation

It is recommended that the Local Pension Board note that the Investment Advisory Panel (IAP) meeting of 21 April 2020 was cancelled and review the notes from the briefing attended by the Chair and Deputy on 30 April 2020.

Rodney Barton
Director

Phone (01274) 432317
E-mail: Rodney.barton@bradford.gov.uk

Portfolio:

Overview & Scrutiny Area:

1. Appendix

- Appendix A – NFP Notes of the IAP briefing meeting held on 30 April 2020