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Helen Barrington
Director of Legal and
Democratic Services
County Hall
Matlock
Derbyshire
DE4 3AG

Extension 38357
Direct Dial 01629 538357
Ask for Danny
Sunderland

PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 13 July 2021

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 21 July 2021** in the Members Room, County Hall, Matlock; the agenda for which is set out below.

Yours faithfully

Helen E. Barrington

Helen Barrington
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. To receive apologies for absence (if any)

2. To receive Declarations of Interest (if any)

3. To confirm the non-exempt minutes of the meeting of the Pensions and Investments Committee held on 9 June 2021 (Pages 1 - 4)

4. To consider the reports of the Director of Finance and ICT on:

4 (a) Updates to the Funding Strategy Statement (Pages 5 - 112)

4 (b) Derbyshire Pension Fund Risk Register (Pages 113 - 130)

4 (c) Arrangements for the Determination of Stage 2 Applications under the LGPS Applications for Adjudication of Disagreements Procedure (Pages 131 - 138)

4 (d) Local Government Pension Scheme Investment Pooling (Pages 139 - 164)

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held on 9 June 2021

PRESENT

Councillor D Wilson (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, B Bingham, M Foster, G Musson, P Smith and M Yates

Derby City Council

Councillor L Care

Also in attendance – M Fairman, A Fletcher, D Kinley, and N Smith

Apologies for absence were received on behalf of Councillor M Carr (Derby City Council)

Prior to the commencement of the meeting the Chairman requested that a minute's silence be observed in memory of Nigel Dowey, the former Pension Administrator Manager, who had supported the committee over a number of years and had recently passed away. The Committee's condolences would be forwarded to his family.

29/21 **MINUTES** **RESOLVED** that the minutes of the meeting held on 28 April 2021 be confirmed as a correct record.

30/21 **INVESTMENT REPORT** Mr Anthony Fletcher, the external adviser from M J Hudson Allenbridge Investment Advisers Limited, attended the meeting and presented his report to the Committee. The report incorporated Mr Fletcher's view on the global economic position, factual information on global market returns, the performance of the Derbyshire Pension Fund, and his latest recommendations on investment strategy and asset allocation. Mr Fletcher also provided details on the impact that the coronavirus pandemic had had on the markets and a general overview of the current market situation.

Details were provided of Mr Fletcher's investment recommendations in UK Equities, North American Equities, European Equities, Japan, Asia/Pacific, Infrastructure, Private Equity and Cash, along with those of the Derbyshire Pension Fund In-House Fund Management Team.

The Fund's latest asset allocation as at 30 April 2021 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new intermediate strategic asset allocation benchmark, were set out in the report. The recommendations of the Director of Finance & ICT, adjusted to reflect the impact of future investment commitments were presented. These commitments (existing plus any new commitments recommended in the report) related to Private Equity, Multi-Asset Credit, Property and Infrastructure and totalled around £400m. Whilst the timing of drawdowns would be lumpy and difficult to predict, the in house Investment Management Team (IIMT) believed that these were likely to occur over the next 18 to 36 months.

In relation to longer term performance, the IIMT noted that the one-year return of 21.0% to 31 March 2021 reflected a catch-up following a sharp market sell-off in February and March 2020 in response to the outbreak of the Covid-19 pandemic. This had been supported by unprecedented levels of fiscal and monetary support provided by national governments and central banks. The IIMT did not believe that these levels of returns were sustainable in the long-term and going forward market returns were likely to be much lower. The Fund's Investment Strategy Statement was based on an assumed average market return of 3.6% per annum over the next 20 years.

Th analysis prepared by IIMT showed that at an overall level, the Fund was overweight Cash and Growth Assets at 30 April 2021, underweight Income Assets and Protection Assets, although if commitments waiting to be drawn down were taken into account, the Fund would move to an overweight position in Growth and Income Assets. The table on page 4 of the report assumed that all new commitments would be funded out of the current cash weighting; in practice as private market commitments were drawn down they were likely to be funded partially out of cash and partially by distributions (income and capital) from existing investments and sales of public market assets. The Fund had progressively reduced its exposure to Growth Assets over the last two to three years, as equity valuations had become increasingly stretched, and increased the allocation to Income Assets and Protection Assets.

The IIMT recommendations reflected in this report: reduce Growth Assets by 1% to 55.8% (0.2% underweight), with some small changes to the regional composition: UK Equities -0.7%; North American Equities -0.8%; European Equities -0.2%; Japanese Equities +0.3%; and Emerging Market Equities +0.4%; increase Income Assets by 1.2% (Infrastructure +1.0%; and Multi-Asset Credit +0.2%); increase Protection Assets by 1.4% (conventional bonds +0.9%; and corporate bonds +0.5%), and reduce Cash by 1.6%. The IIMT noted that the recommendations were subject to market conditions, which continued to be volatile. The IIMT continued to recommend a defensive cash allocation, reflecting both the general market uncertainty and cash held to fund existing commitment drawdowns.

Members welcomed this report, in particular the continued investment in renewable energy and fully supported the measures that had been offered to businesses during the Covid-19 pandemic. Members also made a number of comments and asked questions which were duly noted or answered by officers.

The Chairman thanked Mr Fletcher and the officers for their detailed and informative presentation.

RESOLVED that (1) the report of the external adviser, Mr Fletcher, be noted;

(2) the asset allocations, total assets and long term performance analysis in the report of the Director of Finance and ICT be noted; and

(3) the strategy outlined in the report of the Director of Finance and ICT be approved.

31/21 **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Derbyshire Pension Fund's external investment managers in the quarter ended 31 March 2021.

The report had attached the following two reports to ensure that the Committee was aware of the engagement activity being carried out by LGIM and by LGPS Central Limited (the Fund's pooling company):

- Q1 2021 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 2)
- Q4 2020/21 LGPS Central Limited Quarterly Stewardship Report (Appendix 3).

LGIM managed around £1.5bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; Emerging Market Equities and Global Sustainable Equities. LGPSC currently managed around £0.4bn of assets on behalf of the Fund through its Global Emerging Market Equities Sub-Fund and Global Investment Grade Bonds Sub-Fund. It was expected that LGPSC will manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project These two reports provided an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

Members made a number of comments and asked questions which were duly noted or answered by the officers.

RESOLVED to note the stewardship activity of LGIM and LGPS Central Limited.

32/21 **<u>EXCLUSION OF THE PUBLIC</u>** **RESOLVED** to move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraphs 1 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

<u>SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING</u>

1. To receive declarations of interest (if any)

2. To confirm the exempt minutes of the meeting held on 28 April 2021 (contains exempt information)

33/21 **<u>EXEMPT MINUTES</u>** **RESOLVED** that the exempt minutes of the meeting held on 28 April 2021 be confirmed as a correct record.

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

21 July 2021

Report of the Director of Finance & ICT

Derbyshire Pension Fund
Updates to the Funding Strategy Statement

1 Purpose of the Report

To advise Committee of proposed changes to the Funding Strategy Statement (FSS) following amendments to the Local Government Pension Scheme Regulations 2013 (LGPS 2013) which introduced new powers for administering authorities to review employer contributions between actuarial valuations and to adopt more flexible methods of collecting exit payments from exiting employers.

To advise Committee of Derbyshire Pension Fund's (the Fund) intention to consult with all of its participating employers on the draft updated FSS (updated FSS).

To seek approval for minor amendments to the Fund's Exit Credits Policy which is incorporated in the Admission, Cessation and Bulk Transfer Policy; and referenced in the Fund's FSS.

2 Information and analysis

Funding Strategy Statement (FSS)
Administering authorities are required to prepare, maintain and publish an FSS which must be kept under review, consulting with such persons as they consider appropriate when undertaking a review.

The FSS sets out the objectives of the Fund's funding strategy which include:

- Ensuring the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- Ensuring that employer contribution rates are reasonably stable where appropriate

- Minimising the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return
- Reflecting the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
- Using reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations

The FSS sets out how the administering authority aims to balance the differing targets of stable and affordable contributions, and a prudent long-term view for maintaining the solvency of the Fund.

The FSS is usually reviewed every three years as part of the Fund's actuarial valuation and is also subject to review following a material change in the administering authority's policy on the matters covered by the document (this would normally follow amendments to relevant scheme regulations or statutory guidance).

The most recent version of the FSS was published in March 2020 after being approved by the Committee at its meeting on 4 March 2020 following consultation with the Fund's stakeholders.

Amendment regulations
Following a consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 (2020 Regulations) came into force from 23 September 2020.

These regulations allow for greater flexibilities for reviewing employer contribution rates and for collecting exit payments from employers ceasing their active participation in the Fund (these employers are known as exiting employers). An exiting employer is liable to pay an exit payment if their LGPS liabilities exceed their LGPS assets or may be entitled to receive an exit credit if their LGPS assets exceed their LGPS liabilities.

The 2020 Regulations give administering authorities the power to:

- Review employer contributions between the triennial actuarial valuations in certain situations
- Allow an exiting employer to spread an exit deficit payment rather than pay it fully at the point of exit
- Allow an employer to continue to pay contributions to the Fund as a 'deferred employer' under a formal 'Deferred Debt Agreement' and for those contributions to be reviewed at future valuations

The new powers (known as employer flexibilities) were introduced to increase the range of options available to administering authorities to manage covenant risk in the LGPS which arises where a Scheme employer may be unable to meet its future obligations. They are intended to help administering authorities ensure that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risk, where appropriate.

There is no requirement on administering authorities to use the new powers and the 2020 Regulations require that an authority may only do so where it has set out its policy with respect to the new flexibilities in its FSS, in order to ensure consistency and transparency.

Statutory Guidance
MHCLG published statutory guidance to assist administering authorities in implementing and operating the new regulations on employer flexibilities. The guidance, attached at Appendix 2, set out that in developing new policies for inclusion in their FSS and in using the new powers, administering authorities should aim to ensure:

- Consistent use of any new policies in relation to all employers within the fund
- A clear and transparent process of applying the new policies

The LGPS Scheme Advisory Board (SAB) subsequently produced detailed operational guidance to be considered in conjunction with the MHCLG statutory guidance, attached at Appendix 3.

Draft updated FSS
The updates to the FSS, which largely reflect the Fund’s policy on the new employer flexibilities, have been drafted in consultation with the Fund’s actuary and in consideration of the guidance from MHCLG and the SAB.

The proposed changes to the FSS are highlighted in the updated FSS attached at Appendix 4 (deletions in blue, and changes in yellow), with the matters that the Fund will consider under each flexibility clearly set out. In drafting the proposed changes related to employer flexibilities, the interests of the employer concerned and the interests of all the other employers in the Fund has been considered.

Review of employer contributions between actuarial valuations
LGPS 2013 already provided that a Fund can undertake a review of an employer’s contributions where it may become an exiting employer.

The new regulations allow a review of employer contributions to take place between actuarial valuations in the following additional circumstances:

- It appears likely that the amount of liabilities arising, or likely to arise, for an employer or employers has changed significantly since the last valuation
- It appears likely that there has been a significant change in the ability of an employer or employers to meet their obligations
- Where an employer or employers have requested a review and have undertaken to meet the costs of that review

The SAB guidance makes it clear that whilst a review of contribution rates as part of the actuarial valuation takes into account changes in economic and demographic conditions, as well as changes in membership and individual employer circumstances, a review under the new regulations would only be triggered as a result of either a significant change in membership data or an employer's circumstances.

The updated FSS includes details of the circumstances that the Fund would consider as a potential trigger for a review and clarifies that an employer's reason for requesting a review would be expected to fall into one of the same trigger categories. The requirement for the employer to meet the cost of a requested review is also clearly documented.

Spreading of exit payments
At the point of an employer exiting the Fund, a formal assessment of the employer's funding position (its assets compared to its liabilities) at the date of exit is undertaken by the Fund's actuary.

Employers are usually required to make a single lump sum payment to cover any deficit on exit and that will remain the Fund's default position.

However, where an employer can demonstrate that the payment of the debt in a single immediate payment would have a material detrimental impact on its normal operations, the Fund will in future be able to consider entering into a debt spreading arrangement with the employer subject to actuarial, legal and covenant considerations. The ability to enter into debt spreading arrangements formalises a practice already adopted by many LGPS funds.

In cases where payment of debt is spread, the Fund may require the exiting employer to provide some form of security (such as a charge over assets, bond indemnity or guarantee) in order to reduce the risk of an unpaid debt.

The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided and would not ordinarily exceed five years. Any debt spreading arrangement will be solely at the discretion of the Fund.

Deferred Debt Agreements

Deferred Debt Agreements (DDA) will allow employers to continuing paying contributions to the Fund as a deferred employer when they no longer have any active members, essentially allowing an employer to defer the payment of an exit debt in return for an on-going commitment to meet their responsibilities as an employer in the LGPS.

A DDA is different to a debt spreading arrangement in that the employer does not formally exit the Fund and it allows for the flexibility of active membership returning.

It also allows for employers whose preference is to remain in the Fund and continue to share the risks of continuing participation (e.g. potentially benefiting from investment returns) rather than crystalising any debt at the point of active membership ceasing.

Under a DDA, an employer continues in the Fund with the same obligations as an active employer, with the exception of paying contributions on employees' active LGPS membership (i.e. primary contributions, which fund ongoing future service accrued by employees).

The Fund's actuary would determine a level of secondary contributions (which fund liabilities accrued from historic LGPS membership) and review the level of secondary contributions at each triennial valuation which falls within the period of the DDA.

A DDA would end at the earlier of:

- a fixed end date set in the DDA
- the return of employees with active LGPS membership
- the Fund's actuary determining that the deficit has been fully paid
- the employer requesting to formally exit the Fund and crystalise any outstanding deficit
- the Fund determining that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next twelve months

The decision on whether to enter into a DDA will be solely at the discretion of the Fund, taking into account actuarial, legal and covenant considerations.

Other proposed changes to the FSS
In addition to proposed changes to reflect the Fund's policy on the new employer flexibilities, a small number of other minor revisions have been included in the updated FSS.

Exit Credits Policy

The FSS includes a reference to the Fund's Exit Credits Policy, which sets out the policy for determining the payment of an exit credit if pension liabilities have been overfunded at the date of an employer exit, and which is included in the Fund's Admission, Cessation and Bulk Transfer Policy.

The Local Government Pension Scheme (Amendment) Regulations 2020 allow LGPS funds to take into account pension risk sharing arrangements and the extent of an exiting employer's contributions to the fund when making an exit credit determination.

The recent ruling of a judicial review made by the High Court on 27 May 2021 in the case of Enterprise Managed Service Limited & Amey plc v Secretary of State for MHCLG, confirmed that all relevant facts should be considered by a Fund when determining the value of an exit credit and that no single factor should be conclusive.

This requires a minor change to the Fund's Exit Credits Policy and subsequently to the reference to the policy included in the FSS. The change is highlighted in the updated FSS and in the Fund's Admission, Cessation and Bulk Transfer Policy attached at Appendix 5.

McCloud
A revision to the summary of the Fund's approach to the McCloud judgement during the 2019 valuation is included in the updated FSS.

The McCloud judgement highlighted age discrimination related to changes in benefit structures which were introduced into public service pension schemes in 2014 and 2015. Details of the LGPS remedy following the judgement are still to be confirmed by MHCLG, however, the expected changes are likely to increase the value of employer liabilities.

The Fund decided at the 2019 valuation, to reflect the possible costs of the expected remedy for McCloud by increasing the required likelihood of employers reaching their funding target.

Goodwin
A brief summary of the possible impact of the Goodwin tribunal on Fund liabilities, which may have cost implications for all public service pension schemes, is included in the updated FSS.

The Goodwin tribunal related to a claim against the Teachers' Pension Scheme that members, or their survivors, were discriminated against due to their sexual orientation as males survivors of female scheme members were entitled to a lower survivor benefit than a comparable same-sex survivor.

The tribunal ruled in favour of the claimant and the remedy is expected to apply across all public service pension schemes. The proposed remedy is not yet known, however, the cost impact on the Fund is expected to be minimal. The updated FSS confirms that no allowance was made for the potential remedy to the Goodwin ruling during the 2019 valuation.

Prepayments
The Fund may, at its sole discretion, allow an employer to make advance payments of its employer contributions in return for a discount determined by the Fund's actuary.

The updated FSS confirms that where prepayments calculated on forecast payrolls have been approved by the Fund and result in an 'excess' payment when actual payrolls are taken into account, no refund would be payable to the employer, instead the surplus would remain allocated to the employer's assets within the Fund.

Consultation with employers
A consultation will be undertaken on the FSS with all of the participating employers in the Fund. It is anticipated that the consultation will run for a period of four weeks from 26 July 2021 to 22 August 2021. The result of the consultation will be reported to Committee in September when the final FSS will be presented for approval.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – MHCLG Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements

5.3 Appendix 3 – SAB Guide to employer flexibilities

5.4 Appendix 4 – Draft updated FSS

5.5 Appendix 5 – Amended Admission, Cessation and Bulk Transfer Policy

6. Recommendations

That Committee:

Notes the proposed changes to the FSS following the introduction of new powers for administering authorities to review employer contributions between actuarial valuations and to adopt more flexible methods of collecting exit payments from exiting employers.

Notes the Fund's intention to consult with all participating employers on the updated FSS.

Approves the minor amendments to the Fund's Exit Credits Policy, which is incorporated in the Admission, Cessation and Bulk Transfer Policy.

7. Reasons for recommendations

The information and analysis in this report sets out the proposed changes to the FSS in recognition of amendments made to the LGPS 2013 with respect to employer flexibilities.

The Fund is required to consult with such persons as it considers appropriate when making a material change to its FSS.

Following a recent high court ruling an amendment to the Fund's Exit Credits Policy is necessary.

Peter Handford

Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 The implementation of the new provisions in the draft revised Funding Strategy Statement may have financial implications for the Fund employers concerned.

Legal

2.1 Debt spreading arrangements and Deferred Debt Agreements would be subject to formal legal documentation.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

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1. Home (https://www.gov.uk/)
2. Local government pensions (https://www.gov.uk/topic/local-government/pensions)
3. Local government pension scheme: changes to the local valuation cycle and management of employer risk (https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk)

- Ministry of Housing, Communities & Local Government (https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government)

Consultation outcome

Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements

Updated 2 March 2021

Contents

Print this page

Local Government Pension Scheme (England and Wales): Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements

1 Introduction

1.1 The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020[footnote 1] introducing new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA) (https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk). The relevant regulations are set out in the appendix.

1.2 We have developed this guidance to assist administering authorities who wish to use the new powers. The guidance sets out high level principles and points which the government believes should be considered by administering authorities. It will also be of interest to scheme employers.

1.3 The guidance is issued under regulations 2(3A) and (3B) of the LGPS Regulations 2013 which enables the Secretary of State to issue statutory guidance on the administration and management of the Scheme subject to a requirement to consult such persons as he considers appropriate before doing so.

1.4 We would like to thank the Scheme Advisory Board and the working group of practitioners who have assisted with the preparation of the guidance, as well as all those who responded to the technical consultation undertaken between 2 November 2020 and 23 November 2020.

1.5 An additional guide for employers and administering authorities on the practical application of the new powers is to be published by the Local Government Pension Scheme Advisory Board (SAB) for England and Wales. Administering authorities are advised to consider both documents when developing policies in relation to the new powers.

1.6 In the event of any dispute relating to the new powers, we anticipate the normal mechanisms for resolving these, including the LGPS internal dispute resolution procedures would apply. [footnote 2]

1.7 The guidance is divided into the following sections:

- section 2 provides further context and the relationship to other guidance
- section 3 provides guidance on the process of developing policies
- sections 4, 5 and 6 provide guidance on the content of policies
- section 7 sets out the relevant (as amended) regulations

2 Background

2.1 The LGPS has a large and diverse employer base of over 18,000 public and private sector employers (table 5 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932430/LGPS_England_and_Wales_2019-20.pdf)). As a result, employers join and leave the scheme every year and the circumstances of employers may change significantly between valuations, affecting both funds and employers.

2.2 For some employers, a significant issue has been the cost of exiting the Scheme, which can be prohibitive. Prior to September 2020, the LGPS Regulations 2013 required the payment of an exit payment when the last active member of a fund employer left the Scheme, or an employer otherwise ceased to be an employer in the fund, and the employer was in deficit at the time of their exit. The introduction of deferred employer status allows an administering authority to defer the triggering of an exit payment for a fund employer where the authority deems this appropriate, has had regard to actuarial advice and has set out its policy in its funding strategy statement. While this arrangement is in place, deferred employers will continue to pay contributions to the fund as required by the administering authority, as revised from time to time following actuarial valuations. Additionally, a new alternative power of spreading an exit payment allows an administering authority to recover an employer's exit payment over a period of time. This may be of use where an administering authority does not consider that granting deferred employer status is in the interests of the fund and other employers.

2.3 Administering authorities and employers may also face issues created by changes in the circumstances of employers. The contribution rates of fund employers are normally assessed and set at fund valuations, every three years. Administering authorities, working with their actuary, will consider a variety of factors in setting an employer's contribution rate during valuations. But there may be significant changes between fund valuations, for example due to a change in covenant strength or workforce composition following a reorganisation. The September 2020 Regulations broaden the circumstances in which an administering authority may amend an employer's contribution rate between valuations to cover the following situations:

- where it appears likely to the administering authority that the fund employer's liabilities have changed significantly since the previous valuation,
- where it appears likely to the administering authority that there has been a significant change in a fund employer's ability to meet their statutory obligations (e.g. payment of employer contributions), or
- where a fund employer has requested a review and undertaken to meet the costs of that review.

The introduction of the new powers is intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risks, where appropriate.

2.4 There is no requirement on administering authorities to use any of the new powers. The amendments to the LGPS Regulations 2013 made by the 2020 Regulations require that an authority may do so only where it has set out its policy in its funding strategy statement (FSS). This is to ensure consistency and transparency.

2.5 Statutory guidance on the FSS produced by CIPFA[footnote 3] requires administering authorities to identify the risks that inevitably arise from managing employers including many private sector providers whose covenants may vary in strength. As set out in the CIPFA guidance, the purpose of the FSS is to document the processes by which the administering authority establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward[footnote 4]. Any policies on the use of the new powers that administering authorities may wish to include should be guided by this over-arching purpose.

3 Developing policies on the new powers

3.1 In developing new policies for inclusion in their funding strategy statement (FSS) and in using the new powers administering authorities should aim to ensure:

- consistent use of any new policies in relation to all employers within the fund, and that
- the process of applying any new policies is clear and transparent to all fund employers.

3.2 The FSS is a high-level statement of an administering authority's approach to funding strategy. It must be kept under review and revised whenever there is a material change in the authority's policy on the matters covered by the document [footnote 5]. However, supporting information or detail may be set out elsewhere rather than in the FSS itself, in order to avoid frequent minor changes. Where authorities choose to do this, clear and up to date links to and means of accessing such documentation or information should be included.

3.3 Administering authorities are also required to consult persons they consider appropriate on any material changes to the FSS . Given the potential impact on fund employers resulting from the use of the new powers to manage and mitigate employer risk, it is expected that all fund employers would be considered as appropriate for this purpose and included in consultation on changes to[footnote 6] the FSS.

3.4 When deciding whether to make use of any of the new powers in relation to a specific employer, the administering authority should consider that employer's views, but without prejudice to the administering authority's ultimate decision-making responsibility.

3.5 Administering authorities are required to include a report of the administration arrangements made during the year in the pension fund annual report. Any new arrangements with employers under the new powers would be administration arrangements for the purposes of the report.[footnote 7] Reporting may be limited to stating that an agreement was made and the term of arrangement in order to respect commercial confidentiality.

3.6 Administering authorities should ensure that, where they have utilised the powers covered by this guidance, appropriate records are held to ensure that these arrangements can be effectively audited for compliance.

4 Reviewing Employer Contribution Rates between Fund Valuations

4.1 An administering authority's policy on amending contributions between fund valuations should cover the following matters at a high level:

i. The key factors that the authority will use to consider whether a contribution review for an employer or a group of employers should take place, taking account of actuarial advice.
ii. What factors the administering authority will take into account when assessing the risk or impact of an employer contribution review on other fund employers.
iii. How an employer will be involved in a contribution review and the circumstances in which the administering authority would consider it appropriate to consult other fund employers – for example, where they have provided a guarantee to the employer involved.
iv. The periods in the triennial valuation cycle during which the administering authority considers it may be inappropriate to conduct a review.
v. The matters on which the administering authority will take actuarial advice in setting an employer's revised contribution rate, including the following:
- any increase or decrease in the liability of the employer,
- the effect of changes in the employer's covenant and their ability to meet obligations to the Scheme.
vi.. The process required for an employer to apply for a review, the evidence they may be required to submit, and how the cost to the employer will be calculated.

4.2 Policies should also set out:

- indicative timetable for a review, noting that there may be circumstances where the timetable may vary,
- how any change in the employer's circumstances may be monitored after a change in contribution rate,

- a requirement for employers to support any reasonable information requests in order to allow effective monitoring of the changes in covenant.

5 Spreading Exit Payments

5.1 An administering authority's policy on spreading exit payments should cover the following matters at a high level:

i. The key factors that the authority will use to consider whether an employer's exit payment should be spread, taking account of actuarial advice, as well as any other advice the administering authority may consider necessary.
ii. Any circumstances where the administering authority considers it would not be appropriate to spread an exit payment.
iii. How the administering authority will consider the appropriate length of time for an exit payment to be spread, including its view on the maximum length of any spreading period.
iv. The process the authority will adopt for consulting the fund employer in question under regulation 64B(2)(a). Policies should indicate that proposed exit payment spreading will always be discussed with the employer, whether at the employer's request or not.
v. The evidence an administering authority would expect to require from a fund employer to consider the spreading of an exit payment.
vi. How an administering authority will inform an employer of its decision, and the details to be included in the decision, such as:
- the spreading period,
- the annual payments due,
- interest rates applicable,
- other costs payable, and
- the responsibilities of the employer during the exit spreading period.

vii. The administering authority's approach to monitoring an exit payment that has been spread, how it will engage with the employer, and any circumstances in which the spreading of the exit payment for a particular employer may be reviewed again (for example, as a result of a change in an employer's covenant).

5.2 Policies should also set out:

- the indicative timetable for a review, noting that there may be circumstances where timings may vary,
- that the administering authority will take actuarial, covenant, legal and other advice as necessary in considering a case, and
- the process for employers to share updated information if or when their circumstances change, to allow effective monitoring of the arrangement.

6 Deferred Debt Agreements

6.1 An administering authority's policy on entering into deferred debt agreements (DDAs) should cover the following matters at a high level:

i. The key factors which the authority will use to consider whether to enter into a DDA with an employer, taking account of actuarial advice, as well as any other advice the administering authority may consider necessary.
ii. Any circumstances where the administering authority considers it would not be appropriate to enter into a DDA with an employer.
iii. The process the administering authority will adopt for consulting the exiting fund employer in question under regulation 64(7B)(c)(i). Policies should indicate that proposed DDAs will always be

discussed with the employer, whether at the employer's request or not.
iv. The evidence an administering authority would expect to require from a fund employer to consider a DDA.
v. The matters, aside from those required by regulations, which the administering authority will expect to include in the DDA, including:
- the responsibilities of the deferred employer,
- circumstances triggering a cessation of the arrangement,
- leading to an exit payment (or credit) becoming payable.
vi. The administering authority's approach to monitoring a DDA, including frequency, and the circumstances in which the administering authority may consider:
- approaching the fund employer to seek to agree a variation to the length of the agreement under regulation 64(7D), and
- serving notice on the fund employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d)

6.2 Policies should also set out:

- how the costs of entering into a DDA would be calculated and met,
- the indicative timetable for entering into a DDA, noting that there may be circumstances where timings may vary,
- that the administering authority will take actuarial, covenant legal and other advice as necessary in considering a case,
- the process for employers to share information if or when their circumstances change to allow effective monitoring of the arrangement.

7 Appendix

Extracts from the LGPS Regulations 2013 (as amended) on review of employer contributions, employer exit payments and deferred debt agreements

Revision of rates and adjustments certificate: Scheme employer contributions

64A. - (1) An administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) showing any resulting changes to the contributions of a Scheme employer or employers where -

(a) the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on amending contributions between valuations; and
(b) one of the following conditions applies -
(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

(2) In revising the certificate, an administering authority must -
(a) consult the Scheme employer or employers; and
(b) have regard to the views of an actuary appointed by the administering authority.

Revision of actuarial certificates: exit payments

64B. - (1) Where the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on spreading exit payments, that administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable.

(2) In revising the certificate, an administering authority must -
(a) consult the exiting Scheme employer; and
(b) have regard to the views of an actuary appointed by the administering authority."

In regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained) -

(a) after paragraph (7)

"(7A) An administering authority may enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

(7B) An administering authority may enter into a deferred debt agreement with an exiting Scheme employer where -
(a) the last active member in respect of that Scheme employer has left the Scheme;
(b) the funding strategy mentioned in regulation 58 (funding strategy statements) has set out the administering authority's policy on deferred debt agreements; and
(c) the administering authority has -
(i) consulted the exiting Scheme employer; and
(ii) had regard to the views of an actuary appointed by the administering authority.

(7C) Where a deferred debt agreement has been entered into under paragraph (7A) -
(a) the exiting employer becomes a deferred employer on the date specified in the agreement;
(b) the deferred employer must -
(i) meet all requirements on Scheme employers except the requirement to pay the primary rate of contributions as determined under regulation 62(5) (actuarial valuations of pension funds); and
(ii) pay the secondary rate of contributions as determined under regulation 62(7) as revised from time to time following an actuarial valuation until the termination of the deferred debt agreement.

(7D) A deferred debt agreement must include express provision for it to remain in force for a specified period, which may be varied by agreement of the administering authority and the deferred employer.

(7E) A deferred debt agreement terminates on the first date on which one of the following events occurs -
(a) the deferred employer enrols new active members;
(b) the period specified, or as varied, under paragraph (7D) elapses;
(c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
(d) the administering authority serves a notice on the deferred employer that the administering authority is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
(e) an actuary appointed by the administering authority assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due under paragraph (1) if the employer had become an exiting employer on the calculation date.

(7F) Paragraph (7E)(c) does not apply where the administering authority serves a notice on the deferred employer that the administering authority is satisfied that the event would not be likely to significantly weaken the deferred employer's ability to meet the contributions payable under the deferred debt agreement in the next 12 months.

(7G) On the termination of a deferred debt agreement under paragraph (7E) a deferred employer becomes an exiting employer in relation to the relevant fund for the purposes of this regulation.".
(b) in paragraph (8), before the definition of "exit credit", insert - ""deferred employer" means a Scheme employer which enters into a deferred debt agreement with an administering authority;".

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1. The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 (S.I. 2020/893) (https://www.legislation.gov.uk/uksi/2020/893/contents/made)
2. LGPS Regulations 2013, Regulations 74 - 79
3. LGPS 2013, Regulation 58(4)(a)
4. CIPFA (2016) Preparing and Maintaining a Funding Strategy Statement
5. LGPS Regulations 2013, Regulation 58
6. LGPS Regulations 2013, Regulation 58(3)
7. LGPS Regulations 2013, Regulation 57(1)(c)

Guide to Employer Flexibilities

Details
Last Updated: 05 March 2021

Background and scope

1. This guide has been produced by the Scheme Advisory Board (SAB) in accordance with its functions under Regulation 110(3) to assist Administering Authorities (Section 1) and employers (Section 2) in the implementation of the following regulations:

- Regulation 64A: Revision of rates and adjustments certificate: 'Revisions to scheme employer contributions between valuations'
- Regulation 64B: Revision of actuarial certificates: 'Spreading of exit payments'
- Regulation 64: Special circumstances where revised actuarial valuations and certificates must be obtained; 'Deferred Debt Agreements'

Throughout this document, the use of these regulations is referred to as "the flexibilities" and unless otherwise stated 'regulations' or 'Regulation' refers to the Local Government Pension Scheme (LGPS) regulations 2013 (as amended).

2. These additional regulations build on the previous regulatory framework where exit payments, with some provision to spread, were required for all exiting employers regardless of their situation or the potential risks to the fund.

3. Nothing within this guide overrides, supersedes or varies in any way regulation, statutory guidance or the policies of Administering Authorities on these matters as set out in their Funding Strategy Statement (FSS). The contents reflect the SAB's understanding of the relevant requirements under the regulations, and its views on how the flexibilities could or should be utilised.

4. This guide has been drafted with the assistance of representatives from LGPS Administering Authorities (Section 1) and scheme employers (Section 2) and the Board would like to thank those who provided input

to each section.

5. The SAB actively encourages Administering Authorities to make use of these flexibilities, where appropriate, taking into account the interests of the employer concerned and other employers within the fund.

6. In making use of these flexibilities, Administering Authorities must have proper regard to the regulatory requirements for solvency and cost-efficiency and ensure that they are compliant with the Regulations. They should also have regard to the legal principle that no decision should be so unreasonable that no responsible person acting responsibly could have made it in:

- the proportionality of approach to and demands on employers; and
- how the risks to other employers within the fund are considered.

7. This guide makes reference to instances in which the Administering Authority may wish to take advice from their actuary. Where actuarial involvement is not strictly required under the Regulations, this will be at the discretion of the Authority taking into account their FSS, normal procedures and policies.

8. It is the intention that over time this guide will be supplemented by case studies and examples from Administering Authorities of these flexibilities working in practice. These case studies and examples will be added to the SAB website as they are submitted. The first instance in each section of entries in the Glossary are in **bold type**

Section 1 – A Guide for Administering Authorities

Overview

1. This guide is presented in a question and answer format. It provides information, examples and options in relation to the use of the flexibilities. It also includes consideration of:

- matters for Administering Authorities to consider when setting policies
- the data and information which may be necessary
- the roles and responsibilities of all parties during the implementation of the flexibilities.

2. Effective communication and engagement with scheme employers will be vital to ensuring outcomes which enhance the ability of those employers to meet their duties under the Scheme. Although policies may vary across Administering Authorities, the SAB encourages effective communication and engagement practices with scheme employers to ensure their early participation in, and understanding of, any process undertaken.

3. Consideration of the type of events which may require a review of employer contributions is important and is covered in more depth at question 2 below. It is equally important to be clear about which type of events are not in scope of the policy as those which are. Employers will require this clarity in order to understand why a review might take place as well as when an application for a review may, or may not, be appropriate.

4. When considering whether a contribution review would be appropriate/should be requested, all parties should be mindful that:

- As a principle the appropriate starting point would be the approach from the **Funding Strategy Statement (FSS)** in force at the time, using **assumptions** as at the date of the **actuarial valuation** to which that FSS relates.
- The provision should not be used with the sole objective of only increasing or only reducing employer contributions, but to set appropriate employer contributions regardless of the outcome.
- Changes in assumptions/asset values since the last actuarial valuation should not, in general, be allowed for unless specifically justified.
- Other aspects of the funding plan may be reviewed on a case by case basis but should be justified and remain within the provisions of the existing FSS.

Question 2 below gives more details about when a review might be appropriate.

5. Understanding and assessing **employer covenant** is an important element of the flexibilities. Administering Authorities should consider whether existing frameworks and policies to monitor covenant are transparent and sufficient to meet their needs, in particular does the framework, which may consist of a number of policies and documents beyond the FSS :

- Effectively identify events which might constitute a change of significant magnitude in the employer's ability to meet its obligations
- Ensure such an event is considered in the context of the employer's existing and potential obligations to the Fund
- Identify changes to covenant both positive and negative
- Differentiate sufficiently between different types of employer and different types of participation
- Include a **'notifiable events'** process
- Provide for a proportionate process recognising the balance between resource requirement/complexity and the employer's obligations to the Fund?

Question 4 below gives further details on employer covenant.

Question 8 below provides more detail on notifiable events

6. When considering whether a more flexible approach to employer exits, either by spreading payments or entering into a **Deferred Debt Agreement (DDA)**, as appropriate, Administering Authorities may wish to take into account the following:

- The general starting point, in accordance with the Scheme Regulations, is that the employer is liable for an immediate debt payment on exit and any variation away from this should be considered in the light of this benchmark. In this regard Administering Authorities may wish to clearly set out the circumstances where such variation may or may not be considered.
- Whilst having regard to the above, Administering Authorities should nevertheless be mindful of the broader objectives and finances of the employer with regard to the available options
- It is important to recognise that a more flexible debt arrangement, while needing to be in the best interests of the Fund, may in some cases be appropriate even where the employer covenant is weak as it may allow an employer to avoid accruing further liabilities.
- Regular but proportional review of the conditional elements of any arrangement, together with full engagement in covenant reviews, will be important to ensure that it remains appropriate and in the best interests of all parties.

Question 12 below gives more details about the two approaches.

The Review Process

Q1. What is the difference between a Fund valuation and a review under the Regulations?

1. At the Fund valuation the **Administering Authority** reassesses employer funding plans and contribution rates to take into account changes in membership, economic and demographic conditions and individual employer circumstances. Changes in economic and demographic conditions may also necessitate a change in the fund's funding assumptions.

2. A review under the Regulations will be as a result of either a significant change in membership data or an employer's circumstances. A review can be prompted by the Administering Authority's own monitoring processes or as a result of an application from an employer, but should not be carried out as a result of changes in wider economic or demographic conditions. In all cases the justification for a review should be that the change that has occurred is likely to have a material impact (up or down) on the employer contributions required in order to achieve or maintain full funding.

3. Where it seems likely that an employer may exit before the next Fund valuation then Administering Authorities can use their existing powers under Regulation 64(4) to carry out a valuation and allow for market conditions.

Q2. What events or circumstances could prompt a review?

1. A review may be prompted by two main events:

   a. Employers can request a review, or
   b. An Administering Authority can require a review.

2. One approach could be to set out a list of "trigger events" that could lead to the consideration of the need for a review of employer contribution rates between valuations. Such events may be included in the employer responsibilities, for example via the **Pensions Administration Strategy**, service agreement and/or **admission agreement**.

3. In order to ensure the triggers for review are robust, it is suggested that a series of notifiable events are recorded to ensure an employer informs Administering Authorities of circumstances driving significant change which may or may not be identified by the Administering Authority. The notification of such events could be included in the Pensions Administration Strategy, service agreements and/or admission agreements. Examples of notifiable events might include:

   i. Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund
   ii. Material change in total employer payroll and LGPS pensionable pay
   iii. Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)
   iv. A decision which will restrict the employer's active membership in the Fund in future
   v. Any restructuring or other event which could materially affect the employer's membership.
   vi. Confirmation of wrongful trading
   vii. Conviction of senior personnel
   viii. Decision to cease business
   ix. Breach of banking covenant

4. Whichever the case, a review should be triggered if the Administering Authority believes that there is a reasonable likelihood that there has been either:

   a. a change in liabilities arising or likely to arise, or

b. a change in the employer's ability to meet their obligations.

5. These criteria are considered in more detail in later questions.

Q3. What may be constituted as a change in liabilities arising or likely to arise?

1. A change in liabilities is defined where the benefits in the Fund for which an employer is responsible have materially changed, or are likely to change, all other things being equal, compared to those included in the most recent Fund valuation. A change in liabilities due to the assumptions used to project future benefit cashflows, or the level of discounting applied to those cashflows, should not constitute a change under the regulations.

2. Examples of such changes, which although not exhaustive give an idea of where this flexibility may be appropriate, would include:

   i. Restructuring of a council due to a move to unitary status
   ii. Restructuring of a Multi-Academy Trust for example due to the individual academies that make it up, or a change in how its rate is assessed across its academies
   iii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iv. Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements, age retirements, large number of withdrawals or the loss of a significant contract or income stream
   v. Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

3. Note that there may be occurrences of the above examples which do not trigger a review of employer contribution rates. This would be on the basis that:

   i. the change is not deemed to have a significant or material impact on the liabilities and hence the contributions likely to be required to meet the funding objective
   ii. by taking no action, there is only a negligible increase or decrease in risk to the Fund and other employers in the Fund; or
   iii. the new **Rates and Adjustments Certificate** as part of a Fund valuation exercise as required under Regulation 62 will imminently come into force, and any changes will be included within that Certificate.

In these instances, the Administering Authority may wish to seek their Actuary's opinion.

4. In some instances, a change in the liabilities will also result in a change in an employer's ability to meet these obligations.

5. Ultimately, the final decision rests with the Administering Authority after, if necessary, taking advice from their Actuary.

Q4. What may be constituted as a significant change in an employer's ability to meet their obligations?

1. Ultimately, this decision rests with the Administering Authority after, if necessary, taking advice from their Actuary or a covenant specialist. Examples of such changes would include:

   i. Provision of, or removal of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund.
   ii. Material change in an employer's immediate financial strength (evidence should be available to justify such a view).

iii. Material change in an employer's longer-term financial outlook (evidence should be available to justify such a view).
iv. Where an employer exhibits behaviour that raises concerns over their ability to contribute to the Fund. For example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Administering Authority over a significant period of time.

2. Note that there may be occurrences of the above examples which do not trigger a review of employer contribution rates. This would be on the basis that:

i. the cost of the review outweighs the benefit to the employer, the Fund and other employers in the Fund;
ii. no action was deemed to have a negligible increase or decrease in risk to the Fund and other employers in the Fund; or
iii. the new Rates and Adjustments Certificate as part of a Fund valuation exercise (as required by Regulation 62) will imminently come into force, and any changes will be included within that Certificate.

3. In these instances, the Fund may wish to seek their Actuary's opinion.

Q5. In what circumstances could a request from an employer be treated as a valid reason to exercise these powers?

The Administering Authority may specify that the employer's request must align with one of the two criteria set out in the Regulations which trigger an Administering Authority review; namely a significant change in the liabilities arising or likely to arise or a significant change in the ability of the employer to meet its obligations in the Fund.

1. The employer's request should be evidence-based. The employer should be willing and able to provide sufficient evidence to the Administering Authority to support their request. A review would then be carried out if the Administering Authority considers that there is a reasonable likelihood that the review would result in a material change in the employer's contribution rates.

The Employer should understand and accept that there will be costs associated with the review which, in accordance with the Regulations, they will have to meet.

Q6. When carrying out a review, can the Administering Authority:

(a) use updated membership data?

1. In some cases, the starting point could be the membership data provided for the most recent triennial Fund valuation, for example, if the review was happening during or shortly after the valuation. In most cases, given that the review will only be happening due to material changes in membership, the employer and Fund should work together to prepare a fully updated data set for the actuary to use in their calculations. There may be instances where updated membership data is not required, for example if it is deemed proportionate to use the previous triennial Fund valuation data without adjustment.

2. Where the cause for the review is a change in an employer's ability to meet their obligations, updated membership data may not need to be used unless there have been significant membership movements since the previous Fund valuation that could significantly affect the outcome of the review.

3. The Administering Authority should discuss with their Actuary whether updated membership data is required for each review.

(b) factor in changes to market and/or demographic conditions since the last Fund valuation?

1. As a default, changes in economic and/or demographic conditions since the last Fund valuation should not be taken account of when carrying out a review. Exceptions to this are:

i. the Administering Authority believes it is in the best interests of the Fund (i.e. all employers) to do so;
ii. as a result of transfers of liabilities and notional assets between employers in the Fund, market related calculations are required and to ignore the change in market conditions is impractical.
iii. Change in employer covenant.

2. Where it seems likely that an employer may exit before the next Fund valuation then the Administering Authority can use their existing powers under Regulation 64(4) to carry out a valuation and allow for updated market conditions.

(c) alter the structure or derivation of any financial and/or demographic assumptions?

1. No, the financial and demographic assumptions used should be consistent in their structure and derivation with the principles in the FSS and those used at the last Fund valuation.

2. If, as part of a review, any change to the structure or derivation of assumptions is considered then the Administering Authority should discuss the changes with the Fund's Actuary and may consult with relevant employers.

(d) change the employer's funding target?

1. Yes, such a change may be appropriate. The new funding target should be consistent with the Fund's existing funding strategy. For example, where an employer's circumstances change such that they move from funding on an ongoing basis to a cessation basis.

(e) change the employer's funding time horizon?

1. Yes, such a change may be appropriate. The new time horizon should be consistent with the Fund's existing funding strategy, in particular how employer recovery periods are determined.

(f) change the level of prudence/risk in the employer's funding plan?

1. Yes, such a change may be appropriate. The revised level of prudence/risk should be in line with the Fund's existing funding strategy, however, care will need to be taken with regard to any potential impact on other employers in existing pools or groups of employers.

(g) make revisions to the contribution rates without the Actuary's input and agreement?

1. No, any change to an employer's contribution rate will require a change to the Rates and Adjustment Certificate which is prepared by the Actuary. Therefore, any change must be agreed by the Fund's Actuary prior to it being communicated to the employer.

Q7. How can expectations on cost and timing be managed?

1. Ultimately the cost and timescales for reviews will be dependent upon a number of factors, to include the complexity involved and the level of engagement with the employer. For instance, a contribution review and any associated covenant review might vary in depth of analysis depending on:

i. the nature of the circumstances prompting review,
ii. the type of employer,
iii. the level of information provided and available to the Fund,
iv. the information and advisory support the Administering Authority requires to make an informed decision.

2. In managing the expectations of employers, whether the review is prompted by the Administering Authority itself, or requested by the employer, an Administering Authority may give consideration to a range of cost and timescales by way of a guide, but in practice would be expected to acknowledge and to confirm that these variables will ultimately be dependent on the level of work involved. An Administering Authority may wish to develop a routine/regular form of annual review for employers who request an update on metrics, which could inform whether a more detailed review would be warranted.

3. In terms of responsibility for costs arising, where the review is requested by an employer the expectation would be that those costs are passed onto the employer, subject to local specification and recharging arrangements.

4. With regards to timing, but to be determined by the Administering Authority (unless there is a material change in risk), it may be considered reasonable to preclude a review during a window immediately after or prior to a triennial Fund valuation. Insofar as the Administering Authority is to complete a review, it will need to collate information, undertake the review, take advice and follow its own process to develop and propose an outcome for discussion with the employer. For instance, within 12 months following the statutory valuation date, during the period when updated membership data and more in depth assessment of the Fund and individual employer liabilities is under review, the Administering Authority may wish the triennial Fund valuation process to take precedence over any individual employer reviews (although there may be cases where, at the discretion of the Administering Authority review may be warranted ahead of a revised Rates and Adjustment Certificate coming into effect).

5. It may also be reasonable for the Administering Authority to set out within its own policy a maximum number of requests per employer within a set period (except in exceptional circumstances, to be determined by the Administering Authority). For example, potentially one review per year.

Q8. What additional information is required from an employer?

1. The information required from an employer is likely to depend on whether the review is prompted as a result of a reasonable likelihood of a significant change in liabilities, a significant change in covenant or because the review has been requested by the employer for another reason.

2. Information that may be required to enable a review should be appropriate to the situation and status of the employer and could, for example, include:

   i. Membership data to evidence potential for significant change in liabilities (where not already known to the Administering Authority).
   ii. Most recent employer annual report and accounts, latest management accounts, financial forecasts (3 year) and details of outstanding facilities, position of other creditors (to include encumbered assets and potentially asset valuations) etc. to evidence significant change in covenant.
   iii. Any other relevant information required by the Administering Authority to inform their assessment of employer liabilities and/or covenant.

Q9. How should employers be involved in the review process

1. The involvement of an employer and at which stage, will depend on whether it is a review prompted by the Administering Authority or the employer itself. Regardless of the origin of the review there will need to be a greater degree of individual employer dialogue than would be, for example, the case in a triennial Fund valuation in order to ensure that all parties are fully engaged, led by the Administering Authority in their role conducting the review.

2. In the case of the former, the triggers which prompt the review are likely to be driven by the Administering Authority's own monitoring/flow of information, with the exception of notifiable events outlined in Question 2 above. Once the Administering Authority has considered the evidence and formed the basis for review, it is

anticipated that the employer will be informed from that point onwards as part of an extended dialogue, particularly where information is required, and to confirm the basis for review.

3. When the employer requests a review, it will naturally become involved earlier in the process, with the employer expected to outline the rationale and case for the review through a suitable exchange of information.

4. In each case, whether triggered by the Administering Authority or via an employer request, it would be reasonable to assume there would be dialogue between the parties, to include, but not limited to, an outline of information requirements, an estimation and update of advisory and other necessary costs, an estimated timeline, together with confirmation of the final outcome.

Q10.How should the review decision be communicated?

1. Administering Authorities should communicate and document the consideration of reviews, together with the outcome to the employer in writing, noting the policy (or policies) and process followed and any material determining factors. As well as following a proper and transparent process it will be particularly important that the reasons behind the decision are set out and explained clearly.

2. Details of the employer request process should be determined by each Administering Authority in accordance with its own policies and decision- making processes, including associated delegations.

Q11. How should any appeals process operate?

1. Any appeals process is left for the Administering Authority to determine in accordance with their own policies including any existing employer appeals process, but in its simplest form it would require an employer to evidence one of the following:

   i. A deviation from the published policy or process by the Administering Authority

And/or

   ii. Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority).

2. In setting out an appeal process the Administering Authority should have regard to the following principles:

   i. The process and any amendments to it should be subject to consultation with employers
   ii. The appellant should be granted a reasonable period of time both to make any appeal following a decision and in order to prepare the basis of their appeal
   iii. The process should reflect the responsibilities of the Administering Authority in respect of the triennial Fund valuation or other regulatory obligations which may supersede prior to the completion of any appeal
   iv. The process, including the timescales and requirements for evidence should be accessible, clearly signposted and transparent
   v. Any review of a decision should be considered independently from those directly involved in the original decision

3. Any process determined by the Administering Authority under this section does not supersede or replace the ability for a person to make a complaint under Regulation 74 (applications for adjudication of disagreements).

Debt Spreading Arrangement and Deferred Debt Agreement

Q12. What is the difference between the two and when might you want to use them?

1. Employers with a **Debt Spreading Arrangement (DSA)** are exiting the Fund. These arrangements may be appropriate for an employer which has no active members, no intention of returning to active employer status in the future and wishes to crystallise any debt to the Fund. Employers have an obligation to make good on the payments due under the DSA, which when completed will finalise their exit.

2. Employers with a Deferred Debt Agreement (DDA) have not exited the Fund. These arrangements may be an appropriate alternative to a DSA for an employer which although they have no active members may return to active employer status at some point. Alternatively, these can be used for employers who do wish to exit but do not wish to crystallise any debts to the Fund. They continue to share in the fortunes and risks of the Fund for the duration of the DDA. The exact details of the DDA can be varied depending on the employer/Fund circumstances, but for example the employer might:

   i. Continue to benefit from positive investment returns, which would act to reduce their debt
   ii. Continue to be exposed to the risk of poor investment returns or increasing liabilities, which would act to increase their debt.
   iii. Continue to be exposed to the risk of a failure of other employers, with the associated increase in liabilities.
   iv. Continue to exercise some degree of control over their liabilities, for example by being involved in ill-health
   v. Continue a relationship with a guarantor

Q13. What are the different scenarios when either arrangement might be used?

The fundamental difference between the two arrangements means that different approaches might be appropriate depending on the circumstances of the employer. Some example scenarios are illustrated below:

(a) When the employer has a very strong covenant or can offer significant security and wishes to minimise costs

1. In this case, given the very strong covenant/security position, the fund may be willing to defer the debt payment for an appropriately significant period of time using a DDA. Under this approach, the employer's liabilities could be assessed on an ongoing basis. Subject to the Administering Authority's FSS the ongoing **funding position** would be calculated at each valuation – the employer would make good any deficit in a manner consistent with the FSS.

2. Should the employer have cash reserves available the Administering Authority may wish to consider, and discuss with the employer, whether some form of up-front payment would be appropriate to ensure that the DDA commences from a strong funding position.

3. Over time and subject to a combination of factors, including investment returns and cashflows, the funding position will vary. It may be, possible that a significant surplus could build up relative to the funding target. Alternatively, the employer's deferred status with no active contributions (employer **primary contributions** and employee contributions) flowing into the fund could prevent any surplus from arising. It should be noted that an employer's cessation basis may use actuarial assumptions that are more prudent than those used for the ongoing funding basis. Therefore, a surplus on an ongoing basis may not be sufficient to meet exit debt on an employer's cessation basis.

4. Should a surplus arise to the extent that the assets are sufficient to cover the cessation liabilities the DDA is required under regulation 64(7E)(e) to cease and the employer become an exiting employer, without any requirement for an exit payment. Where a surplus exists on a cessation basis, an exit credit may be payable as determined by the Administering Authority. The employer will then have paid only the contributions

required to cover the ongoing liabilities – the rest will have been achieved through investment returns and positive membership returns.

(b) When initial affordability is low, but with the prospect of increased affordability in future

1. In this case, a DDA could enable the employer's funding basis to be set in line with the fund appropriate cessation basis. At each actuarial Fund valuation the remaining cessation deficit would be assessed, and **secondary rate contributions** put in place to address the deficit. The level of the secondary contributions may also take into account changes in the employer's affordability. If affordability/covenant improves between valuations, the Rates and Adjustments certificate could be reviewed (under Regulation 64A) to increase contributions.

(c) When the employer is very weak and must rely on future investment returns to fully or partially fund the cessation debt.

1. In some cases, the employer may be very weak, but not facing imminent insolvency. In these cases, although a DSA might be more appropriate, the fund might decide that it is better to agree to put in place a DDA over an appropriately long period and a sufficiently long recovery plan to manage that employer's situation as far as practical, and within the allowances set out in the Fund's FSS, effectively relying on investment returns to make up most of the cessation deficit. This is clearly far from ideal, but the Fund may need to consider as a last resort that it is better to receive some level of contributions from the employer rather than crystallising a cessation debt and forcing immediate insolvency.

2. In this and potentially other circumstances where a DDA is being considered the possibility of the employer covenant being supported by obtaining some form of guarantor or security could be considered as not all employers will be able to obtain a guarantee.

3. If a guarantor already exists (including, where applicable, the related employer referred to in Regulation 64(3)(a) of the 2013 Regulations) it will be important to involve them in the process. However, care will need to be taken to ensure confidentiality of sensitive information is maintained and that any potential conflicts of interest are effectively managed.

(d) When the employer expects to continue to employ members in the LGPS, but temporarily has no active members.

1. For example, this might happen with a small employer where the very few active members opt out of the fund but will be re-enrolled under auto-enrolment. In this case, a DDA might be preferred, as it would allow the employer to continue to be associated with the fund. Subject to the circumstances of the employer, such an approach may be more appropriate than using the existing suspension notice permitted under Regulation 64 (2A)

(e) When the cessation debt can be afforded over a relatively short period, but not immediately.

1. In this case, a DSA might be preferred, as it would allow the employer to remove obligations to the Fund as quickly as is affordable, which would remove the administrative burden of liaising with the Fund. Conversely, where the debt can only be afforded over a longer period, a DDA might be preferable, as it allows the position to be updated over time in the light of changing funding positions. Employers who may be party to either a DSA or a DDA should be encouraged to discuss any potential impact on their accounting treatment with their auditors.

Q14. What form should a Deferred Debt Agreement take?

1. An example of a framework DDA is included at Schedule A. This has been compiled with the assistance of Eversheds Sutherland as legal advisors to the SAB. Administering Authorities may wish to use this framework to develop a bespoke DDA, which should be an intrinsic element of the discussions, not a tick box exercise at the end of the process.

Q15. What discretions will be applicable to a deferred or exiting employer?

1. A table of discretions is included at Schedule B. This shows how each of the discretions under the scheme apply to active, deferred and existing employers.

Section 2 - Employer guidance on new LGPS flexibilities

Overview

1. These amending regulations have been laid because the powers they grant had been requested by employers and Administering Authorities for some time. They received strong support from scheme stakeholders through the consultation process.

2. Employers are reminded that while it is not mandatory for Administering Authorities to exercise these new powers, those that do are required to set out how the flexibilities will apply in their **Funding Strategy Statement (FSS)**, in line with **statutory guidance** issued by MHCLG, and (**non-statutory**) SAB guidance. This will ensure consistency of treatment between employers and allow for transparency in the process. Administering Authorities are expected to consult on material changes to the FSS with affected parties, including their employers.

3. It is intended that these new flexibilities provide a formal basis for discussion between employers and their Fund on these issues so employers should feel able to approach their Fund should they wish to investigate how they may apply in their case. In particular, where an employer is considering exiting the LGPS or will be exiting as a result of another trigger event, it is strongly encouraged that the employer engage with the **Administering Authority** in advance of leaving the fund to understand the options that may be open to them on exit.

4. Administering Authorities are under no obligation to use these new flexibilities although the SAB are encouraging their use. If an employer's Fund has chosen not to use the flexibilities, they should be asked to clearly state their reasons for not doing so.

5. Although it is hoped that decisions under these regulations can be reached by the Administering Authority to the satisfaction of the employer, that may not always be the case. Those Funds which do use these flexibilities will be expected to have in place a transparent process for dealing with appeals against their decisions. This is set out further in question 11 of the guide for Administering Authorities.

Review of Contributions

1. This power has been granted to Administering Authorities and employers to recognise that employer circumstances can and do change in between triennial Fund valuations by respectively initiating or seeking a review of contributions.

Q1. What is a review?

1. Administering Authorities now have the power to consider whether the contribution rate agreed for an individual employer as part of the most recent triennial Fund valuation remains appropriate, in advance of the next Fund valuation. In most cases a review would mean a reassessment of the employer's covenant

with a view to potentially changing the employer contribution rate. The employer in question will have to be consulted as part of the review.

Q2. When might it take place?

1. There are three scenarios where a material change may have taken place that could indicate a review of the employer contribution rate could be necessary:

   a. Administering Authorities may review the contributions of an employer where there has been a significant change to the liabilities of that employer, for example, if there has been a bulk transfer in, or out. This should not be interpreted as allowing a review to be undertaken if the **funding level** associated with a particular employer changes, for example, due to a change in asset values, as this would be managed through the triennial Fund valuation process.
   b. Administering Authorities may review the contributions of an employer where there has been a significant change in the strength of the employer's covenant, for example, through business restructuring or merger.
   c. An employer may request a review of contributions from the Administering Authority, for example, if the employer believes their circumstances have changed significantly such as through a material change in their LGPS employee numbers. Employers may also wish to ask for a review of their contribution rate alongside the provision of additional security to the fund; or if there are other reasons for believing the covenant strength has improved, for example, the employer has been taken over by a stronger parent organisation.

2. Your Administering Authority may set out a list of "trigger events" that could lead to the consideration of the need for a review of employer contribution rates between valuations. Such events may be included in the employer responsibilities, for example via the **Pensions Administration Strategy,** service agreement and/or **admission agreement**. Employers should familiarise themselves with this list to ensure that they take them into account when considering actions which may cause them to trigger a review, and to enable them to engage with their Administering Authority in advance.

3. Your Administering Authority may set some limits around when a review can take place, for example they may not be willing to undertake a review that is requested in the 12 months following a Fund valuation date.

Q3. Can I ask for a review?

1. The employer can request a review of their contribution rate in accordance with the policy contained in the Fund's FSS. The Administering Authority would not be expected to consider undertaking a review unless the employer can demonstrate that there has been a significant change to its circumstances, for example:

   i. The securing of a security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund.
   ii. Material change in an employer's immediate financial strength (evidence should be available to justify such a view).
   iii. Material change in an employer's longer-term financial outlook (evidence should be available to justify such a view).

2. The policy under which an employer may request a review will be set out in the Administering Authority's FSS together with the matters to be considered when determining whether such a request shall be accepted.

Q4. What could this mean for employers?

1. The review may conclude that no change is necessary or that the employer contribution rate (**primary or secondary**) may need to increase or decrease.

2. Should an employer request a review they would be required under the regulations to meet the reasonable costs incurred for both the employer and the Fund. The Fund should set out, in principle, the information it will require together with the anticipated costs of undertaking such an exercise including the process for obtaining reasonable but necessary actuarial, covenant advisory, legal and other advice, and the method of payment, before the project starts. If the costs were later expected to be significantly in excess of this, a process can be put in place between the employer and Fund to monitor and manage this.

3. In addition, employers should note that the Fund will be required to consider the impact on the other employers in the Fund when undertaking a contribution review in order to manage how risk is shared across the Fund. For example, this could be mitigated by a request for security from the employer.

Q5. What would I need to evidence if I do ask for a review?

1. Employers will need to be able to set out their reasons for requesting a review. This would include explaining the change in circumstances, together with evidence to back up the materiality of any change in covenant strength including financial and non-financial impacts. For example, details of any potential or planned change in business structure, ownership or credit rating, information from financial forecasts, changes in LGPS membership numbers or covenant strength or details of security that could be provided to the Fund.

2. Employers may consider whether requesting that the Administering Authority sign a confidentiality agreement would be appropriate in order to be able to share all information and evidence as may be set out in the FSS or requested by the Administering Authority.

Debt Spreading Arrangement

Q6. What is a Debt Spreading Arrangement?

1. Once an employer triggers an exit payment it would be calculated on the agreed basis (as reported in the FSS or termination policy). Although the default position remains that an exit payment is immediately payable in full, this exit payment could potentially be divided into instalments and spread over time. This could better enable the employer to afford to leave the scheme and manage the impact on the business' cashflow.

2. The structure of the **Debt Spreading Arrangement (DSA)** would be at the discretion of the Administering Authority, regarding which they may wish to take the advice of the Fund's actuary. The process by which this is decided should be set out in the FSS.

3. The Administering Authority would decide whether to spread an exit payment, over what period the exit payment is to be paid and when it is to be paid. However, it is expected that this will follow a discussion between the Administering Authority and employer.to determine a payment structure that is both achievable and protects all other employers in the Fund. The regulations allow a significant degree of flexibility in relation to setting up the arrangement to meet the needs of different situations, but the ultimate decision as to whether a DSA should be put in place rests with the Administering Authority.

4. While in most cases the spreading arrangement would remain fixed for the agreed duration, the Administering Authority may feel it is appropriate to allow the terms of an agreement to be altered at a future date if, say, the employer wanted to pay the balance, or there was a significant change in the **employer covenant.**

5. The Fund will be required to consider the potential impact on the other employers in the Fund to ensure that competing interests are balanced. It is possible that security will be required as this could reduce the risk to

other employers. The FSS would be expected to include how security may be required, what this would cover and how this would be managed over time.

6. A table of discretions is included at Schedule B. This shows how each of the discretions under the scheme apply to exiting employers.

Q7. Why would it happen?

1. These flexibilities have been introduced to provide an option to those employers that face the challenge of no longer being able to afford to continue to build up future liabilities, but who also cannot afford to pay the exit payment as a single payment. Spreading the payment may enable them to exit in an orderly manner to the benefit of all the employers and the Fund. Any process by which an employer may request to investigate spreading their exit payment will be set out in the FSS with an expectation of the likely timescale for reaching agreement.

2. The current option of making a full payment on exit would remain.

Q8. What needs to be considered?

1. A key question is the ability of the employer to afford the full payment at the point of exit. If the employer is able to make a single payment in full this will usually be the preferred option for the Administering Authority as this provides greater certainty for future funding, may minimise any interest the Administering Authority may charge for spreading payments and minimises the risk to other employers. Therefore, any employer wishing to use this option will have to set out clear and evidenced reasons for needing to spread the payment. In the case of weaker employers, spreading their exit payment can be a method of reducing risk to the remaining employers in the Fund.

2. A further consideration for the Fund is the ongoing covenant strength of the exiting employer. The Administering Authority will need to be comfortable that the strength of covenant s such that it can be relied on over the payment period. This will influence the length of the spreading period. There are no minimum or maximum spreading periods set out in the regulations. Employers will need to demonstrate that they are sustainable over the agreed term or are able to provide the Fund with additional security. The Administering Authority will need to set out in the FSS how security will be managed over the period of the arrangement as the size of the debt reduces.

3. The Fund will be required to take account of the interests of all employers and the Fund as a whole when considering a request to spread an exit payment. The requirements for information necessary to inform the decision, together with any requirements for security should be set out in the FSS or Pensions Administration Strategy.

4. Employers who may be subject to a DSA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Q9. What information or security might be required?

1. Allowing the exit payments to be spread over an extended period may increase the risk faced by remaining employers. To manage the additional risks the Administering Authority will need to have sufficient information to be able to make a judgement on the covenant strength of the relevant employer. Employers may already be familiar with the type of information required as many Funds make detailed assessments of employer covenant as part of the triennial Fund valuation process.

2. This could include information on business structure and ownership, credit rating, the report and accounts, information from financial forecasts, sources of income, access to government support, numbers of LGPS eligible staff and details of security that could be provided to the Fund.

3. It is to be expected that the Administering Authority will monitor the covenant strength over the spreading period and may consider amending or terminating the agreement.

4. The Fund will need to ensure that any security required is sufficient and could be called on should the employer covenant weaken.

Q10. Will there be costs?

1. It is anticipated that spreading will be an employer driven request therefore all reasonable costs will be expected to be met by the employer. Funds should share an overview of the anticipated costs of the exercise with employers, including the process for obtaining necessary actuarial, covenant advisory, legal and other advice, and set out how payment should be made, before the project starts. Actual costs may significantly deviate from those anticipated at the start of the project and Administering Authorities will be expected to keep employers up to date with any changes during the process.

Deferred Debt Agreement (DDA)

1. **Deferred Debt Agreements** will allow employers to continue to participate in a fund when they no longer have any active members. These arrangements are well established in the private sector for multi-employer schemes. Although some Administering Authorities have interpreted the LGPS regulations as already allowing analogous arrangements the additional regulations provides a clear regulatory framework, clarity and encourages the consistent treatment of employers within and between LGPS Funds, and expects Funds to set out clear reasons for divergence.

2. A table of discretions is included at Schedule B. This shows how each of the discretions under the scheme apply to exiting employers. Employers will need to update their policies once their status changes.

Q11. What is a DDA?

1. Administering Authorities now have the power to allow an employer to defer the exit payment where they no longer have any active members, in return for an on-going commitment to meet their existing responsibilities as employers in the LGPS. Essentially, this allows the employer to continue to carry the funding risk for their **past service liabilities** and to pay secondary contributions to fund any deficit, calculated on the appropriate basis as set out in the FSS. The employer will continue to be responsible for funding their liabilities for as long as the DDA is in force.

Q12. How is it different to a debt spreading payment?

1. An exit payment is calculated at the date of exit using a basis consistent with the Fund's FSS to assess the cost of funding the employer's past service liabilities. This amount may be spread over an agreed period, but is fixed. Once the spreading arrangement is in place the payments are known and predictable. In this case the employer will be classed as an exiting employer.

2. A DDA is entirely at the discretion of the Administering Authority and as it will require more regular monitoring than a DSA it would remain subject to the ongoing agreement of the Administering Authority. It is anticipated that each DDA would at least be reviewed as part of the triennial Fund valuation process. Therefore, the contributions payable may change at each future valuation and although the DDA will start with a specified period this may require variation over time. In this case the employer will have ongoing responsibilities as a deferred employer in the LGPS.

3. Employers who may be subject to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Q13. What needs to be considered?

1. In order for an Administering Authority to agree to set up a DDA, the employer will need to be able to demonstrate that it has sufficient strength of covenant so that the Fund and the other employers are not exposed to undue risk. In particular, the Administering Authority will need to be assured that the covenant is not expected to weaken over time. Therefore, the employer will need to demonstrate their duration of covenant, as they would with any recovery plan, and to engage in future discussions on covenant as part of the triennial Fund valuation. In some cases, the Administering Authority may request additional security and/o r an up-front cash injection in order to be comfortable to set up a DDA. The policy and process by which an employer can request to be considered for a DDA, and the nature of the evidence (including covenant assessment) which the Administering Authority would take into account when determining whether or not to grant a DDA, will be set out in the FSS and Pensions Administration Strategy.

Q14. How will it work once agreed?

1. The arrangement would need to be reviewed regularly as part of the triennial Fund valuation process and referenced in the valuation report. Funds will need to have a process in place for regular engagement and monitoring of the employer's funding level between Fund valuations, monitoring of the employer's covenant. A process will also be required to allow the amendment or termination of the arrangement, triggering an exit valuation, should there be a significant deterioration in covenant or change in funding level. This process may in time be set out in the FSS, or more likely the DDA itself. It is possible that a DDA could lead into a spreading arrangement to allow a managed exit from the Fund should the employer become an exiting employer.

2. An employer could also request that the DDA be terminated, if at a future point the employer wished to entirely exit the scheme. At this point, if there was a past service deficit, the required exit payment would be calculated (and possibly a spreading arrangement considered).

Q15. Will there be costs?

1. As a DDA request would be expected to be driven by an employer, all reasonable costs of the employer and the Fund would be expected to be met by the relevant employer. Where possible, the Administering Authority should outline the potential costs of such an exercise including the process for obtaining necessary actuarial, covenant advisory, legal and other advice, and how payment would be made, before the project is started. Should the actual costs significantly exceed the predicted cost the fund should engage with the employer to inform them of this, and assess how this will be managed.

Schedule A Example Deferred Debt Agreement

Download as an MS Word Document **Schedule A Example Deferred Debt Agreement**

Schedule B Table of employer discretions

Download as an Aodobe PDF Document **Schedule B Table of employer discretions**

Schedule C Glossary of Terms

Actuarial certificates

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

Actuarial valuation

An investigation by an actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

Administering Authority

A body with a statutory duty to manage and administer the LGPS and maintain a pension fund (the Fund). Usually, but not restricted to being, a local authority.

Admission agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation and investment returns

Debt spreading arrangement

The ability to spread an exit payment over a period of time

Deferred debt agreement

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

Employer covenant

The extent of the employer's legal obligation and financial ability to support its pension scheme now and in the future.

Funding level/position

The funding position is the value of assets compares with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

Funding strategy statement (FSS)

Published under regulation by each Administering Authority it Sets out, how employers' pension liabilities are to be met going forwards. 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.

Fund valuation

See actuarial valuation

Fund valuation date

The effective date of the triennial fund valuation.

Non-statutory guidance

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

Primary and secondary employer contributions

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

Rates and adjustments certificate

A statement of the contributions payable by each scheme employer (see actuarial certificates)

Statutory guidance

Guidance produced under powers contained in legislation and which must be complied with

Board Guidance

Annual Benefit Statements
Employer Flexibilities
Local Pension Boards

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Appendix 4

Derbyshire Pension Fund

Funding Strategy Statement

~~MARCH 2020~~JULY 2021

Prepared in collaboration with Hymans Robertson LLP

Approved by Pensions and Investments Committee ~~4 March 2020~~X XXXX 2021

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Derbyshire Pension Fund ("the Fund"), which is administered by Derbyshire County Council ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from ~~4 March 2020~~ [TBC].

It has been updated from the March 2020 version to accommodate regulatory changes in 2020 relating to exit credits and employer flexibilities – see 3.3 notes (f) and (j) in particular.

1.2 What is the Derbyshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Derbyshire Fund, in effect the LGPS for the Derbyshire area, to make sure it:

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Dawn Kinley, Head of Pension Fund in the first instance at e-mail address (dawn.kinley@derbyshire.gov.uk).

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

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

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

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

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

The Administering Authority may, at its absolute discretion, permit an employer to "prepay" its certified contributions in the Rates and Adjustments certificate, for a discounted sum (calculated by the Fund's actuary). Where this prepayment includes an element of contributions relating to a percentage of payroll, if the actual experienced payroll is subsequently higher than estimated when calculating the prepayment amount, a "top-up" payment may be required from the employer. For the avoidance of doubt, if the actual experienced payroll is subsequently lower than estimated when calculating the prepayment amount, no refund would be payable to the employer; the "excess" would instead remain allocated to the employer's assets within the Fund.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

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

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

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

2.5 How is a funding level calculated?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. ~~At the time of writing, MHCLG has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities.~~ At the time of carrying out the 31 March 2019 formal actuarial valuation, the Ministry of Housing, Communities and Local Government (MHCLG) had not provided any details of changes as a result of the case. However, it was expected that benefits changes would be required, and they would likely increase the value of liabilities. At that time, the scale and nature of any increase in liabilities were unknown, which limited the ability of the Fund to make an accurate allowance.~~At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.~~

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

The Fund, in line with the advice in the SAB's note, considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that would arise from the McCloud judgement were uncertain, the Fund elected to allow for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the required likelihood of reaching the funding target.~~As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.~~

~~The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to allow for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the required likelihood of reaching the funding target.~~

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

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see the paragraph titled "Allowance for McCloud on cessation" within note (j) to the table at 3.3 for further information.

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

The Goodwin tribunal was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be very small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2019 formal valuation.

~~2.8~~2.9 When will the next actuarial valuation be?

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

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At its absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies				Designating employers	Community Admission Bodies		Transferee Admission Bodies*
Sub-type	Local Authorities, Police and Fire	Arms Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies	Universities and Colleges	Town and Parish Councils (pooled)	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)				Ongoing participation basis, assumes long-term Fund participation (see Appendix E)	Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Ongoing participation basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)							
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	15 years**	19 years	12 years	12 years	The lower of 12 years and the outstanding contract term
Secondary rate – Note (d)	Percentage of payroll and/or Monetary amount	Percentage of payroll and/or Monetary amount	Percentage of Payroll	Percentage of payroll and/or Monetary amount	Percentage of Payroll	Percentage of payroll and/or Monetary amount	Percentage of payroll and/or Monetary amount	Percentage of payroll and/or Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 15 years	Reduce contributions by spreading the surplus over 19 years	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the lower of 12 years and the outstanding contract term

Likelihood of achieving target – Note (e)	70%	70%	70%	75%	70%	85% (50% if gilts exit basis)	85% (50% if gilts exit basis)	75%
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
Review of rates – Note (f)	Review of rates will be carried out in line with the Regulations and as set out in Note (f) ~~Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations~~ ~~Particularly reviewed in last 3 years of contract~~							
New employer	n/a	n/a	Note (g)	n/a	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).				Can be ceased. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (~~k~~ j).	Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the ongoing participation basis, unless the admission agreement is terminated early by the contractor or letting employer in which case the low risk exit basis may apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting employer and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the

contractor's assets and liabilities will transfer back to the letting employer ordinarily with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

** The time horizon for universities and colleges has been reduced from that used at the 31 March 2016 valuation as a means of recognising the potential shortening of these bodies' lifetimes within the Fund. In addition, the Fund reserves the right to use a different likelihood of success for these bodies than stated in the table above if there are concerns in relation to their individual circumstances.

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

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2019 valuation exercise the stabilised details are as follows:

Type of employer	Local Authorities, Police and Fire	Arms Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies
Max cont. increase	1%	1%	1%
Max cont. decrease	0%	0%	-1%

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

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

Note (d) (Secondary rate)

For some employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

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

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

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

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

The Fund reserves the right to use a different likelihood of achieving target than is specified in the table in section 3.3 for any employer, to take into account its specific circumstances.

Note (f) (~~Regular~~ Interim Reviews)

Under the Regulations the Fund may amend contribution rates between valuations where there has been "significant change" to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

Where the Administering Authority determines that an employer's circumstances prompt the need for a review of its funding position and contribution rate, the costs of the review will be met by the employer.

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

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

The Administering Authority will consider the proximity to the next formal valuation before agreeing to undertake a review of an employer's contribution rate.

Requests for an interim review of an employer's contribution rate will normally be limited to one per employer over a rolling twelve-month period.

The decision on whether to amend an employer's contribution rate rests with the Administering Authority following consultation with the Fund's actuary.

It should be noted that any review may require increased contributions. The Administering Authority may need to consult other fund employers e.g. where they act as guarantor, as part of a review. ~~Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.~~

~~The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.~~

Note (g) (New Academy conversions)

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

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

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

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

iv. The new academy will pay contributions initially linked to the ceding Council's contribution rate;

v. At the next formal actuarial valuation, the new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

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

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

Note (h) (New Admission Bodies)

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

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

Risk Sharing

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

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach. On cessation, the contractor would not normally pay any exit debt or receive an exit credit.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations, its policy on exit credits which is included in the Fund’s Admission, Cessation and Bulk Transfer Policy,-and this FSS.

iii) Fixed contribution rate agreed

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

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement.

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

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

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

Note (j) (~~Admission Bodies~~ Ceasing Employers Exiting the Fund)

Notwithstanding the provisions of ~~the~~ any Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an ~~admission agreement with any type of body~~ employer’s participation within the Fund:

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

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. The Administering Authority reserves the right to put in place a Deferred Debt Agreement (as described in Regulation 64 (7A)).This is covered in further detail on page 22.

Payment of cessation debt

Where there is a debt, payment of this amount in full would normally be sought from the ~~Admission Body~~ceasing employer. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum and this remains the Fund's default position. However, subject to actuarial, covenant, legal and any other advice as necessary, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period.

The decision on whether to enter into an exit debt spreading agreement with an employer rests with the Administering Authority; it will be evidence based and take into account advice from the Fund's actuary and any other relevant professional advice.

Repayments may be subject to an interest charge and any spreading would always be discussed in advance and agreed with the employer. Such agreement would only be permitted at the Fund's discretion, where the employer can demonstrate that payment of the debt in a single immediate lump sum could be shown to be materially detrimental to its normal operations.

The employer would need also to provide all the necessary information requested by the Administering Authority to determine the strength of the employer's covenant over the term of the Debt Spreading Agreement.

The Fund will provide a timetable for carrying out a debt spreading review on receipt of the relevant evidence from the employer.

In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time. The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed 5 years. The Fund will confirm the spreading period, annual repayments including any interest, and any other costs (e.g. actuarial or legal) payable by the employer prior to the repayments starting. The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments.

Consideration of surplus / exit credit

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

i. the extent of any surplus,

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

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

~~i.~~iv. any other factors the Administering Authority deem relevant.~~On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.~~

The Fund's policy on exit credits is set out in the Fund's Admission, Cessation and Bulk Transfer Policy (available on the Fund's website).

Allowance for McCloud on cessation

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

Allowance for expenses on cessation

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation. The Fund's default approach is to recharge these costs ~~, both of which the Fund may recharge~~ to the employer via an invoice. In exceptional cases, depending on an employer's circumstances, the Fund reserves the right to collect these costs using alternative means e.g. via adjustment to an ~~For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the~~ employer's cessation surplus or ~~added to the employer's~~ cessation deficit, as appropriate. ~~This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.~~

Actuarial basis on cessation

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

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

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

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

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

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

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

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into a written agreement with the employer to defer its obligations to make an exit payment and continue to make Secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The adoption of this approach will continue to expose the employer to stock market and other funding risks during the deferment period, leading to changes in the size of the debt, rather than crystallising the size of the debt at the point of cessation.

The deferred employer must meet all requirements on Scheme employers and pay the Secondary rate of contributions as determined by the Fund Actuary until the termination of the DDA. Any such agreement would always be discussed in advance with any letting employer or guarantor and the ceasing employer, whether at its request or not.

The decision on whether to enter into a deferred debt agreement with an employer rests with the Administering Authority; it will be evidence based and take into account advice from the Fund's Actuary and any other relevant professional advice.

The Fund will provide a timetable for considering a DDA on receipt of all relevant evidence from the employer as outlined below.

The Administering Authority will consider DDA's in the following circumstances:

- The employer requests the Fund to consider a DDA;
- The employer is expected to have a deficit when the cessation valuation is carried out;
- The employer is expected to be a going concern; and
- The covenant of the employer is considered sufficient by the Administering Authority. Evidence may be required from the employer to back this up e.g. report and accounts, financial forecasts and budgets.

The Administering Authority will normally require:

- Security to be put in place covering the employer's ~~-~~deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the employer, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements. Estimates of these would be notified to the employer.

A DDA will normally terminate on the first date on which one of the following events occurs:

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

On the termination of a DDA, the deferred employer will become an exiting employer and a cessation valuation will be completed in line with this FSS. ~~As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts~~

~~exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.~~

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.
- Town and Parish Councils Pre and Post 2001 Pools are generally pooled as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

It is recognised that pooling can result in cross subsidies from one employer to another over time. This can arise from the different membership profiles of the different employers within a pool and from different experience. Over longer time periods, it would be expected that the experience will even out between employers and that each employer, will on average, pay a fair level of contributions. The pools will be reviewed at each valuation to determine if the membership remains appropriate.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary. This may show that if they were a stand-alone employer then some employers would be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non-ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Strain costs would ordinarily be paid in full in the year in which the strain is incurred.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

To mitigate this risk, individual employers may elect to use external insurance, which has been made available by the Fund (see 3.8 below).

3.8 Ill health risk management

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

The Administering Authority is currently reviewing its policy on managing ill health early retirement costs.

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

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of ill health allowances versus experience (as typically required for some employers).

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

3.11 Policies on intra-fund transfers

Where members transfer between employers within the Derbyshire Pension Fund, the assets that will be transferred from the transferring employer's asset share to the receiving employer's asset share will depend on the circumstances of the member(s)' transfer. In particular:

- Note (g) to Table 3.3 explains how assets will be allocated to new academy schools when members transfer from the ceding employer at the academy conversion date;
- Note (i) to Table 3.3 explains how assets will be allocated to new transferee admission bodies when services are outsourced from a scheduled body;

- If an individual member changes his/her employment from one employer in the Fund to another employer in the Fund, assets equal to the individual's cash equivalent transfer value (using standard Club factors) will be transferred from the transferring employer to the receiving employer;
- For all other cases, the Fund's default approach will be to transfer assets equal to the transferring liabilities (assessed on the Fund's ongoing funding basis) from the transferring employer's asset share to the receiving employer's asset share, unless there are specific circumstances which would merit an alternative approach.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority will monitor the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an annual basis. It will report this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

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

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

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

Relative considerations include:

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

Absolute considerations include:

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

"to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

to take a prudent longer-term view of funding those liabilities."

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was published on Derbyshire County Council's website (with a link from the Fund's website) on 6th January 2020, with comments invited from all of the Fund's stakeholders; a link to the website was issued to all participating employers and members of the Derbyshire Pension Board;

b) Comments were requested by 2nd February 2020;

c) Following the end of the consultation period the FSS was updated where required and then published on the Derbyshire Pension Fund website, in March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website

A copy sent by e-mail to each participating employer in the Fund;

A copy sent by e-mail to the members of the Derbyshire Pension Board.

A link to the FSS is included in the annual report and accounts of the Fund;

A copy sent by email to the Fund's independent investment adviser;

Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

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

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Admissions, Cessations and Bulk Transfers policies, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Fund's website: www.derbyshirepensionfund.org.uk

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of

Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change	Climate change risk is monitored via the Fund's risk register. The impact of climate change on long term funding has been modelled and considered as part of the formal 2019 actuarial valuation.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored as part of each formal actuarial valuation, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal

Risk	Summary of Control Mechanisms
	valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken to minimise the risk of the employer leaving behind an unpaid debt if it were to exit.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks.

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

Appendix D – The calculation of Employer contributions

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

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

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

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

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

Employer contributions are normally made up of two elements:

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

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

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

D2 How is the Primary contribution rate calculated?

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

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

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

D4 What affects a given employer's valuation results?

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

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

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

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

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

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

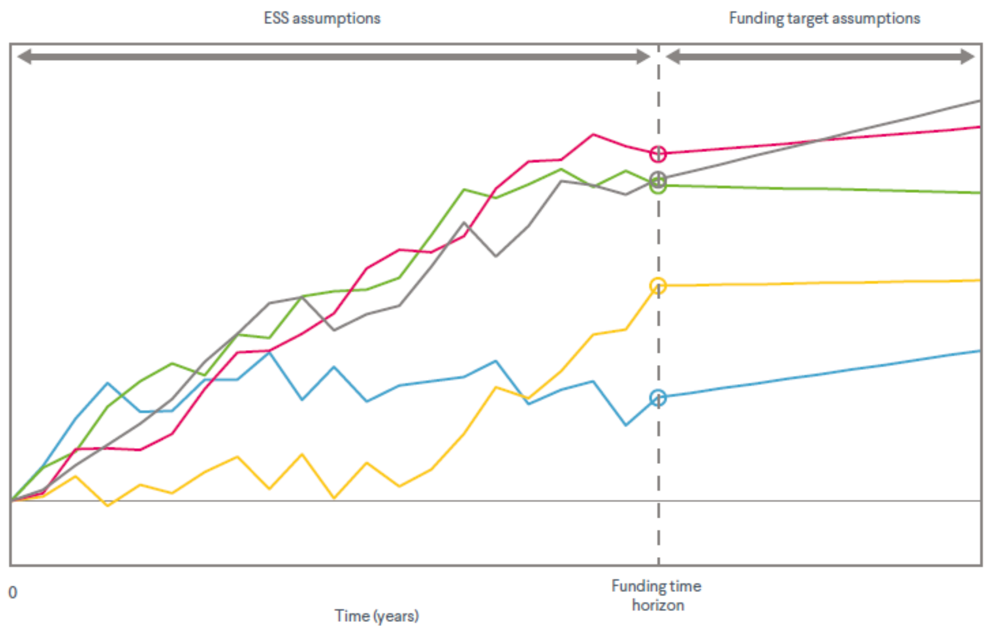
For instance, taking pension increases (which follow price inflation) as an example:

- a higher assumed rate of increase will give higher assumed costs and hence higher calculated contributions;
- the actual cost of pensions will vary by the rate of actual price inflation, not what had been assumed in the past.

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

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

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has two different funding bases – see E3 below.



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

E2 What assumptions are used in the ESS?

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

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

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

E3 What assumptions are used in the funding target?

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

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

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

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

Funding basis	Ongoing participation basis	Low risk exit basis
Employer type	All employers except closed Community Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer’s funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields with no allowance for outperformance on the Fund’s assets

E4 What other assumptions apply?

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

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. the retail prices index (RPI) thereafter.

This gives a single "blended" assumption of CPI plus 0.7%. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.6%. The change has led to a reduction in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

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

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

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

d) General

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

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

Appendix F – Glossary

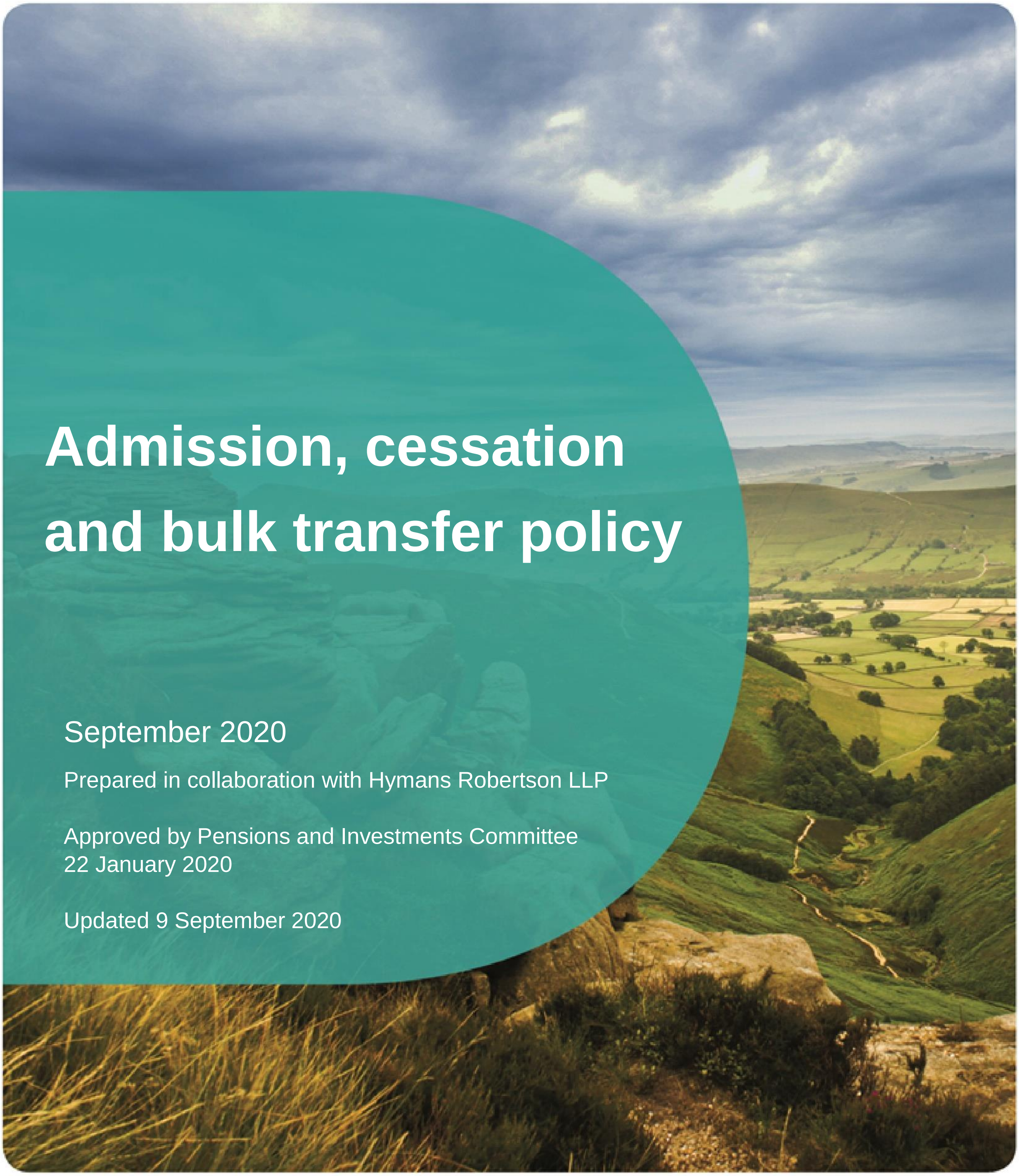
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For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

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

Valuation	A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.

Derbyshire Pension Fund

Tel. 01629 538900
derbyshirepensionfund.org.uk



Admission, cessation and bulk transfer policy

September 2020

Prepared in collaboration with Hymans Robertson LLP

Approved by Pensions and Investments Committee
22 January 2020

Updated 9 September 2020

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

Contents

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
derbyshirepensionfund.org.uk

Admission/cessation policy context

Introduction

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised and managed accordingly.

The policy has been prepared in compliance with The Local Government Pension Scheme Regulations 2013 and subsequent amendments.

Derbyshire County Council's Pensions and Investments Committee, in its role as the Administering Authority of Derbyshire Pension Fund approved the policy at its meeting on 22 January 2020.

The Committee subsequently approved the Fund's Exit Credits Policy, which is included in this policy, at its meeting on 9 September 2020.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013, ("LGPS Regulations") sets out the various types of employer that can participate in the scheme and the different requirements that apply to each. These can be summarised as:

Bodies listed in Part 1 to Schedule 2 – the county council, district and borough councils, further education colleges, academies, police and fire services. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)

Bodies listed in Part 2 to Schedule 2 – often referred to as designating employers, as they have the right to decide who of their employees are eligible to join the scheme. Includes town and parish councils, as well as entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry in to the scheme in respect of that employer.

Bodies listed in part 3 to schedule 2 – admission bodies, who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are –

- 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);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- 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—
  - the transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing),
  - a direction made under section 15 of the Local Government Act 1999,

- directions made under section 497A of the Education Act 1996;

- 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.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements;
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements.

Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in a number of areas relating to the treatment of scheme employers. The keys areas covered by the FSS are: -

- Purpose of the FSS;
- Aims and purpose of the Pension Fund;
- Responsibilities of the key parties
- Calculation of funding positions and individual employer contribution rates;
- Link to investment policy set out in the Investment Strategy Statement;
- Key risks and controls

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund.

Background

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the body was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor (where appropriate), the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below, with the policy position set out in Appendix 1:

- **Entry conditions** – to what extent, if any, the Administering Authority can determine entry conditions for any new employer and the manner in which those applications will be considered and approved;

Derbyshire Pension Fund

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- **Requirements for a bond/indemnity or guarantor** – understanding the risk that a new employer might place on the Fund, usually through underfunding on exit from the Fund, and the mitigations that can be put in place (in the form of a bond/indemnity or guarantor) to reduce or remove that risk;
- **Risk sharing** – more often adopted with admission bodies, and while not changing the full cost of the pension benefits, the Administering Authority can decide its approach to the sharing of risk with an established sponsoring employer (e.g. fixed employer contribution rates, pooling the admission body with the scheme employer, etc.);
- **Allocating assets on entry** – on admission each new employer will notionally be allocated assets in the Fund, from which time they will be tracked and employer contributions set with a view to achieving solvency should the employer leave the scheme. Depending on the type of employer concerned the Administering Authority will need to decide how that initial asset allocation should be handled (e.g. given assets equal to 100% of the liabilities transferred or required to take on a share of any funding deficit at the outset);
- **Matched investment strategy** – the flexibility to offer an employer an investment strategy matched to its participation can reduce the risk of underfunding at exit. This can, however, be a time-consuming exercise, and so the Administering Authority must balance the risk of underfunding on exit with the additional time and cost associated with the matched strategy;
- **Contribution rates and other costs** – the Administering Authority will need to decide how the initial contribution rate is set for any new scheme employers on joining the scheme. Decisions may also be required in relation to other costs, e.g. legal or actuarial costs;
- **Pooling** – There may be circumstances where a new employer has strong links to an existing employer, or where there is homogeneity amongst certain groups of employers. In these circumstances there may be a desire on the part of the employers to share some of the pension risk, which can be achieved via a pooling agreement. In simple terms, this will allow the bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members;
- **Ongoing monitoring** – it is important that monitoring of scheme employers is carried out throughout their term of participation and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be achieved via various methods, such as regular funding level reviews, risk assessments and requirements to notify the Administering Authority of any changes in circumstances;
- **Termination/exit requirements** – one of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Under the terms of the LGPS Regulations a termination valuation is required to be carried out at the point a scheme employer ceases to participate (e.g. as a result of the last active member leaving or the termination of a contractual arrangement with another scheme employer) in order to ascertain the exit payment due in relation to any deficit or payable on account of a funding surplus;
- **Future cessations** – When a scheme employer ceases to participate in the scheme its assets should be equal to its liabilities on an appropriate basis. In these circumstances, the Administering Authority may seek to increase or reduce the scheme employer's contributions to the Fund in the period leading up to its expected exit (if known) in order to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding at exit;
- **Basis of termination valuation** – as with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant

members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out basis;

- **Payment of cessation debt or exit credit** – When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund, or any surplus that might need to be refunded to the exiting employer. The LGPS regulations specify the manner in which an exit credit should be made and allows the Administering Authority to determine the level of any exit credit payment, which may be nil, to the exiting employer. The regulations also allow the Administering Authority discretion on whether or not the payment of any deficit should be paid as a lump sum or whether it can be paid in instalments. There is also a provision which clarifies what should happen if it is not possible to recover the cessation payment, for example due to the exiting employer going into liquidation and no assets being available.

Statement of principles

The Administering Authority's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to ensure employers recognise the impact of their participation in the Local Government Pension Scheme, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Policies

The Administering Authority's policies in relation to the admission of new scheme employers and the treatment of scheme employers on cessation are set out in Appendix 1.

A policy which sets out the Administering Authority's approach to exit credits is included as Appendix 2.

Bulk transfer policy context

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

Bulk transfer requests will be considered on a case by case basis, ensuring that:

- transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007).

Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

- where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (bought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme, who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

Note:

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

It is our understanding that there is no specific provision giving protection to past pension accrual in either the Direction or new Fair Deal (albeit if the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement, therefore, the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate GAD guidance.

Statement of Principles

The Administering Authority's policy is drafted on the basis of the following key principles:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;
- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer (e.g. the use of gilts where unsecured liabilities are being left behind, or where transfer terms are subject to commercial factors).
- The Administering Authority will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members.
- A bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.
- A bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations.
- The Administering Authority will not grant added benefits to members bringing in entitlements from another LGPS Fund or other scheme unless the asset transfer is sufficient to meet the added liabilities.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

Notes to bulk transfer policy

There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

For transfers out, in exceptional circumstances the Fund's policy may be altered to reflect specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer).

- **Format of transfer payment**
  Ordinarily payment will be in cash, with discretion delegated to the s.151 officer to agree alternatives.

  A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

- **Impact on transferring employer**
  Any transfer of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

  The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

- **Consent**
  Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

- **Approval process**
  Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

  The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

- **Non-negotiable**
  It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

Policy

The Administering Authority's policy in relation to bulk transfers is set out in Appendix 3.

Appendix 1 – Admission/cessations policy

The following table sets out a summary of the various scenarios that may exist for the admission of scheme employers in to the Fund, along with its approach to their on-going monitoring and where appropriate their exit from the Fund.

1.1 Entry conditions and requirements of the Fund

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Entry conditions	All new Part 1 employers (Inc. academies) must ensure Fund is aware of their creation. A designating employer should provide the Fund with a signed copy of its resolution, confirming who is eligible for membership of the Fund		Will consider applications from bodies: - with links to a scheme employer; or - that provides services or assets on behalf of a scheme employer Agreements can be open or closed, so long as necessary protections are in place
Bond / indemnity / guarantor	Not applicable		Secure and financially durable bond or guarantor in place (generally with a scheme employer and/or government department) Must be reviewed and renewed on an annual basis
Risk sharing	Not applicable		Ordinarily the Fund will not be party to any risk sharing arrangements. Any such arrangements would not be included within the admission agreement and managed by the relevant parties. In order to protect the interests of the Fund, however, it would request sight of any risk sharing arrangements that have been put in place.
Approval	Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS. Academies may be pooled with other academies as part of a Multi Academy Trust (MAT). Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.		Dependent on type of admission body - For new service providers = 100% of past service liabilities - For all others – to be agreed on a case by case basis In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation

1.2 Financial aspects of entry

<table>
<tr><th></th><th>Scheduled bodies (Part 1 of schedule 2)</th><th>Designating employers (Part 2 of schedule 2)</th><th>Admission bodies (Part 3 of schedule 2)</th></tr>
<tr><td>Asset allocation</td><td colspan="2">Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS.

Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).

Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.</td><td>Dependent on type of admission body

- For new service providers = 100% of past service liabilities

- For all others – to be agreed on a case by case basis

In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation</td></tr>
<tr><td>Investment strategy</td><td colspan="3">Set for the Fund as a whole</td></tr>
<tr><td>Contributions</td><td colspan="3">Set in accordance with Funding Strategy Statement

Will be required to pay additional amounts (strain) in respect of:

- non-ill health early retirements; and

- employer award of additional pension.

Ordinarily payments must to be made to the Fund within the year in which the strain cost was incurred</td></tr>
<tr><td>Other employer costs</td><td colspan="3">May require payment of actuarial. legal and other justifiable costs incurred as a result of participation in the Fund, together with any additional costs incurred by administering authority resulting from an employer's poor performance</td></tr>
<tr><td>Pooling</td><td colspan="2">Ordinarily pooling will not be available. The only exception would be academies who can be pooled as part of a MAT or Town and Parish Councils that are currently pooled.</td><td>Where it is believed to be advantageous and all parties agree the administering authority may agree to pooling with contracting scheme employer</td></tr>
</table>

1.3 Employer monitoring

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Ongoing monitoring	The Fund reserves the right to review a scheme employer's funding position annually, or more frequently. Where it appears that liabilities have increased by more than expected at the last funding valuation the employer contribution rate may be subject to review during the inter-valuation period.		The Fund will ensure the ongoing assessment of risk related to each admitted body, to ensure the level of bond/indemnity cover remains appropriate. Employer contribution reviewed no less frequently than as part of formal valuations (inter-valuation may be undertaken if required if it appears liabilities have increased by more than allowed for at preceding formal valuation, or where the employer may become an exiting employer)

1.4 Cessation terms and requirements

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Termination requirements	The Fund will take legal advice on the appropriate triggers that might lead to termination of a scheme employer's participation in the fund (e.g. last active leaving)		
Future cessations	A provisional cessation valuation will be carried out as soon as the Fund becomes aware that a scheme employer may be exiting the scheme for whatever reason.		Carry out a "provisional" valuation as soon as Fund is aware of the likelihood of an employer exiting the Fund For an admission body the Fund reserves the right to undertake ongoing annual assessments where it becomes aware that the organisation may cease to participate in the Fund. Fund reserves the right to undertake exit valuation on a "least risk"/"gilts" basis to reduce on-going risk to remaining scheme employers
Basis of termination valuation	"Clean break" on basis set out in FSS, requiring the scheme employer to make an appropriate exit debt payment immediately, or receive an exit credit.		
Exit debt / exit credit	Exit debt usually collected as a single lump sum, although may be able to extend over an extended period on agreement of Head of Pension Fund and Section 151 Officer. No exit debt required or exit payment due when pooled with contracting scheme employer Exit credits will usually only be paid where the admission body is not participating in a risk sharing agreement. The Administering Authority's policy on exit credits is set out in Appendix 2.		

Appendix 2 – Exit credits policy

This policy was approved by Derbyshire County Council's Pensions and Investments Committee, in its role as the Administering Authority of Derbyshire Pension Fund, at its meeting on 9 September 2020 following a period of consultation with participating Fund employers.

Introduction

The Local Government Pension Scheme Regulations 2013 (the 2013 Regulations) were amended in 2018 to allow exit credits to be paid for the first time. The amendment came into effect on 14 May 2018 but had retrospective effect back to 1 April 2014. Further amendment regulations came into force on 20 March 2020 which were also deemed to have effect from 14 May 2018.

If an employer becomes an exiting employer under Regulation 64 of the 2013 Regulations, it may be entitled to receive an exit credit if its pension liabilities have been overfunded at its date of exit.

Exit Valuation

When an employer becomes an exiting employer, Derbyshire Pension Fund (the Fund) must obtain from the Fund actuary:

1. an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the exiting employer's current and former employees
2. a revised rates and adjustments certificate showing the exit payment due from the exiting employer; or the excess of assets in the Fund relating to that employer over its liabilities as calculated by the valuation

When commissioning the valuation from the actuary, the Fund will also request the actuary to confirm the proportion of any excess of assets which has arisen because of the value of the employer's contributions. This a factor the Fund must have regard to when making its determination as to the amount of the exit credit.

Notification

The Fund will notify its intention to make a determination on whether to pay an exit credit to:

- the exiting employer
- where the exiting employer is a 'transferee' admission body, the scheme employer in connection with that body (i.e. the letting authority)
- where the exiting employer is an admission body of any type, any other body that has given a guarantee in respect of the admission body

Determination

In accordance with Regulation 64 (2ZAB) of the 2013 Regulations (as amended), Derbyshire Pension Fund (the Fund) will determine the amount of any exit credit (which may be zero) taking into account the following factors:

- the extent to which the exiting employer's assets in the Fund are in excess of its liabilities (in relation to benefits in respect of the exiting employer's current and former employees)
- the proportion of this excess of assets which has arisen because of the value of the exiting employer's contributions

- any representations made by the exiting employer and, where the employer participates in the scheme by virtue of an admission agreement, any body that has acted as a guarantor for the employer's pension liabilities (in many cases this will be the letting authority)
- any other relevant factors

In determining whether an exit credit may be payable, Derbyshire Pension Fund, will review each case on its own merits and will apply the following guidelines:

1. For pre -14 May 2018 admissions, the Fund will take into account the fact that original commercial contracts between admission bodies and letting authorities/guarantors could not have been drafted with regard to the May 2018 regulation changes that implemented exit credits retrospectively. Subject to any representations to the contrary, it will be assumed that the employer priced the contract accordingly and that no subsequent agreements covering the ownership of exit credits have been negotiated.
2. The basis for calculating an employer's pension liabilities to determine the level of any exit credit, will generally be as set out in the Fund's Funding Strategy Statement.
3. ~~No~~ An exit credit will not normally be payable to an admission body which participates in the Fund via an agreed fixed contribution rate throughout its participation in the Fund as in this case the pensions risk 'passes through' to the letting authority.
4. The Fund may undertake an exit credit calculation which reflects any contractual pension risk sharing provisions between the exiting employer, the letting authority/guarantor and/or any other relevant body with respect to pension risk sharing. This information, including confirmation of which party is responsible for which funding risk should be provided to the administering authority within one month of the exiting employer ceasing participation in the Fund.
5. Where a guarantor or similar arrangement is in place, but no formal risk sharing arrangement exists, the Fund will take into consideration how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This may inform the determination of the value of any exit credit.
6. If an employer leaves on the 'gilts exit basis' as set out in the Funding Strategy Statement, any exit credit will normally be paid in full to the employer, subject to consideration of the individual circumstances.
7. If an admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment.
8. If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, no exit credit will generally be paid.
9. If there is any doubt about the applicable LGPS benefit structure at the date of exit (e.g. McCloud remedy), the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit credit.
10. The Fund will take into account whether any outstanding contributions or other payments are due to the Fund at the cessation date. Any outstanding payments will be notified to the exiting employer and will be deducted from any exit credit payment.
11. Costs associated with the determination of an exit credit may be deducted from any exit credit payment at the Fund's discretion.

12. The Fund will consider any representations made by the letting authority and/or any other relevant scheme employer regarding monies owed to them by the exiting employer in respect of the contract that is ceasing. Representations regarding any such outstanding payments should be made to the Fund within one month of the exiting employer ceasing participation in the Fund.

13. The Fund's final decision will be made by the Director of Finance & ICT with advice from the Head of Pension Fund, and where necessary with advice from the Fund's actuary, and/or legal advisors, in consideration of the guidelines set out in this policy.

14. There may be some situations which are bespoke in nature. In these situations, the Fund will take into account the factors it considers to be relevant in determining whether an exit credit is payable, including representations from relevant parties. The Fund's decision on how to make an exit credit determination in these instances will be final.

15. The Fund will inform the exiting employer of any exit credit amount due to be paid and seek to make payment within six months of the exit date. In order to meet the six month timeframe, the Fund will require prompt notification of an employer's exit and all data and relevant information as requested. The Fund will be unable to make an exit credit payment until all the requested data and information has been received. Agreement to an extension of the timeframe will be deemed where data and information have not been provided on time.

Appeals

If a party involved in the exit credit process set out in this Policy wishes to dispute the Fund's determination, this must be routed through the Fund's internal dispute resolution procedure (application for adjudication of disagreements procedure - AADP). A copy of the AADP is available here: AADP

If the relevant party is still unhappy with the exit credit determination, having gone through all the stages of the AADP, they may be able to take a complaint to the Pensions Ombudsman.

Review

This Exit Credits Policy will be reviewed at least every three years as part of the triennial valuation process or following any relevant changes in the LGPS Regulations.

Appendix 3 – Bulk transfer policy

The following table sets out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section we set out the Administering Authority's policies in relation to a number of subsidiary areas associated with bulk transfers.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
	Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.
Broadly Comparable scheme **Or** **Machinery of Government where scheme is treated as a non-Club scheme**	In	GAD guidance < 2 members – GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance Cash equivalent transfer values in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer-in formulae. The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	Out	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). Discretion exists to amend this to reflect specific circumstances of the situation.

Scenario		Bulk transfer mechanism	Policy	Methodology
Inter-fund transfer (transfer between the Fund and another LGPS Fund)	In	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	On receipt of a transfer value (calculated in line with the **CETV transfer-out formulae**), the Fund will award the member a pension credit on a day-for-day basis.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer an amount calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation. Pension credits will be awarded to the transferring members on a day-for-day basis.
	Out	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation

Agenda Item No. 4 (b)

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

21 July 2021

Report of the Director of Finance & ICT

Derbyshire Pension Fund Risk Register

1. Purpose of the Report

To consider the Derbyshire Pension Fund (the Fund) Risk Register.

2. Information and Analysis

The Risk Register identifies:

- Risk item
- Description of risk and potential impact
- Impact, probability and overall risk score
- Risk mitigation controls and procedures
- Proposed further controls and procedures
- Risk owner
- Target risk score

The Risk Register is kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A detailed annual review of the Risk Register by Derbyshire Pension Board was also introduced in early 2021. A copy of both the Summary and Main Risk Registers are attached to this report as Appendix 2 and Appendix 3 respectively. Changes from the previous quarter are highlighted in blue font.

Risk Score

The risk score reflects a combination of the risk occurring (probability) and the likely severity (impact). Probability scores range from 1 (rare) to 5 (almost certain) and impact scores range from 1 (negligible) to 5 (very high). A low risk classification is based on an overall risk score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.

The Risk Register includes a target score which shows the expected risk score once the proposed additional risk mitigation controls and procedures have been implemented. The difference between the actual and target score for each risk item is also shown to allow users to identify those risk items where the proposed new mitigation and controls will have the biggest effect.

Covid 19

The Fund's Business Continuity Plan has continued to work well and all of the Fund's critical activities have been maintained throughout the period of business disruption caused by the pandemic. Alternative processes set up to accommodate remote working, remain under review, taking into consideration the possibility of the current working arrangements being in place for some time.

High Risk Items

The Risk Register has the following four high risk items:

(1) Fund assets insufficient to meet liabilities (Risk No.19)

(2) LGPS Central related underperformance of investment returns (Risk No.30)

(3) Impact of McCloud judgement on funding (Risk No.37)

(4) Impact of McCloud judgement on administration (Risk No.44)

Fund assets insufficient to meet liabilities

There is a risk for any pension fund that assets may be insufficient to meet liabilities; funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. Every three years, the Fund undertakes an actuarial valuation to determine the expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets), and to determine employer contribution rates.

As part of the valuation exercise, the Pension Fund's Funding Strategy Statement (FSS) is reviewed, to ensure that an appropriate funding strategy is in place. The FSS sets out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer. The Fund's 2020 FSS was approved by Committee in March 2020 and proposed updates to the FSS are being presented to Committee today.

The Fund was 97% funded at 31 March 2019, with a deficit of £163m, up from 87%, with a deficit of £546m at 31 March 2016. The funding level provides a high-level snapshot of the funding position at a particular date and can be very different the following day on a sharp move in investment markets. The next actuarial valuation is due to be carried out at 31 March 2022.

Whilst the Fund has a significant proportion of its assets in growth assets, the last two reviews of the Strategic Asset Allocation Benchmark have introduced a lower exposure to growth assets and a higher exposure to income assets with the aim of protecting the improvement in the Fund's funding position.

LGPS Central Pool
The Fund is expected to transition the management of a large proportion of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. The Fund has so far transitioned around 10% of its assets into LGPSC active products.

LGPSC is a relatively new company which launched its first investment products in April 2018. There is a risk that the investment returns delivered by the company will not meet the investment return targets against the specified benchmarks.

The Fund continues to take a meaningful role in the development of LGPSC, and has input into the design and development of the company's product offering to ensure that it will allow the Fund to implement its investment strategy. The company's manager selection process is scrutinised by the Pool's Partner Funds and the Fund will initially continue to carry out its own due diligence on selected managers as confidence is built in the company's manager selection skills.

The performance of LGPSC investment vehicles is monitored and reviewed jointly by the Partner Funds under the Investment Working Group (a sub-group of the Partner Funds' Practitioners' Advisory Forum) and by the Pool's Joint Committee.

The Fund is also likely to maintain a large exposure to passive investment vehicles in the long term which will reduce the risk of total portfolio underperformance against the benchmark.

McCloud Judgement
The McCloud case relates to transitional protections given to scheme members in the judges' and firefighters' schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. MHCLG published its proposed remedy related to the McCloud judgement in July 2020.

The proposed remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. It is also proposed that underpin protection will apply where a member leaves with either a deferred or an immediate entitlement to a pension (previously it just applied to immediate entitlements). The underpin will give the member the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligible period of service.

The changes will be retrospective, which means that benefits for all qualifying leavers since 1 April 2014 will need to be reviewed to determine whether the extended underpin will produce a higher benefit. This will have a significant impact on the administration of the Scheme. Analysis by Hymans Robertson (the Fund's actuary), suggests that around **1.2m** members of the LGPS, roughly equivalent to a quarter of all members, may be affected by the revised underpin. Locally it is estimated that around **26,000** members of the Fund are likely to fall into the scope of the proposed changes to the underpin.

Any increase in benefits for members will need to be funded by scheme employers. At a whole scheme level, Hymans estimate that total liabilities might increase by around **0.2%**, equivalent to around **£0.5bn** across the whole of the English and Welsh LGPS. This estimate is significantly less than the **£2.5bn** quoted in the MHCLG consultation. The difference is largely due to the materially higher pay growth assumption used by the Government Actuary's Department.

Hymans forecast that the impact of the remedy might be to increase average primary contributions by around **0.2%** of pay, with an increase in secondary contributions of around **0.1%** of pay. Whilst the impact at the whole scheme level is expected to be small, it may be material at an individual employer level. The impact on employers' funding arrangements is expected be dampened by the funding arrangements they have in place, however, it is likely there will be unavoidable upward pressure on contributions in future years.

With respect to the Government's cost control mechanism for public service pension schemes, HM Treasury (HMT) confirmed in February 2021 that it was 'un-pausing' the 2016/17 cost cap valuations, which will take into account the cost of implementing the McCloud remedy. HMT confirmed that any cost cap ceiling breaches will not result in benefit reductions, however, any cost floor breaches will be honoured, with any benefit increases taking effect from 1 April 2019.

The uncertainty caused by the McCloud judgement is reflected on the Risk Register under two separate risks for clarity, one under Funding & Investments and one under Administration, although the two risks are closely linked.

The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. In line with advice issued by the LGPS Scheme Advisory Board (SAB), the Fund's 2019 actuarial calculations were based on the current benefit structure, with no allowance made for the possible outcome of the cost cap mechanism or McCloud. However, an extra level of prudence was introduced into the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to the Fund's employers in the valuation letters.

In the short term, the impact of the uncertainty caused by the McCloud case is greatest for exit payments and credits as, at a cessation event, the cost of benefits is crystallised. The Funding Strategy Statement includes an allowance for a **1%** uplift in a ceasing employer's total cessation liability for cessation valuations that are carried out before any changes to the LGPS benefit structure are confirmed. The funding risk score will be reviewed when MHCLG's remedy is confirmed.

The administration risk relates to the enormous challenge that will be faced by administering authorities and employers in backdating scheme changes over such a significant period; this risk has been recognised by the SAB. Whilst the Fund already requires employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 April 2014; employers have, therefore, been asked to retain all relevant employee records. Communications are also being developed to check with employers on the data supplied to the Fund since 2014 with respect to changes in part-time hours and service breaks.

Aquila Heywood has provided the Fund with McCloud related tools for testing on the Altair pension administration system which would be used to identify, and subsequently bulk load, any required additional service history.

A McCloud Project Board has been set up to formalise the governance of this major project. The Fund will continue to keep up to date with news related to the McCloud remedy and the cost cap process from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

New & Removed Items/Changes to Risk Scores
One new risk has been added to the Risk Register this quarter; no risks have been removed and no existing risk scores have been changed.

New Risks
Risks arising from a significant acceleration of the academisation of schools (Risk No. 18).

In April 2021, the Secretary of State for Education announced an acceleration of the academisation of schools noting: 'the government's vision for the school system to continue to move decisively towards a single model built on strong multi-academy trusts as its foundation', although no timetable was attached to this statement.

Academies are state-funded schools that are independent from local authorities and are directly funded and controlled from the Department for Education. All maintained schools, which are funded and controlled by a local authority, are allowed to convert to academy status.

Maintained schools are pooled with their local authority for the purpose of membership of the LGPS for their non-teaching staff. When a maintained school converts to an academy, it becomes a participating employer in the scheme in its own right.

Given the large number of remaining maintained schools in Derbyshire (over 300), there could potentially be a further big increase in the number of individual employers in the Fund despite the likelihood that many converting schools would join a multi-academy trust.

Any further division of LGPS members into an increasingly wider pool of employers, will increase pressure on several areas of Fund operations including: employer onboarding; the collection of data and contributions; employer training; & actuarial matters. Increased academisation would also likely lead to an increase in the outsourcing of functions and services involving LGPS members, which in turn would lead to a further increase in the number of employers in the Fund.

The evolving landscape of multi-academy trusts is also introducing increased administrative and funding challenges for LGPS funds as academies move between trusts and trusts consolidate their academies into single LGPS funds.

The Fund has an effective procedure for admitting new academies to the Fund, treating them as individual participating employers, backed by robust administrative and actuarial arrangements, which helps to mitigate some of the issues that arise when academies move between trusts.

This new risk has been included under the Governance section of the Risk Register as it has both funding and administrative implications. The Fund will continue to monitor local developments with respect to academisation and will monitor the administrative resource required by the Fund to support any increase in the number of participating employers. The funding implications of any academies consolidating in another LGPS fund will also be kept under review.

Updated Risk Narrative
No risks have been removed and no risk scores have been changed, however, the narrative for the following risks has been updated:

Risk No. 22, relating to the risk of failing to correctly assess the potential impact of climate change on the investment portfolio and on the funding strategy, has been updated following a discussion on the appropriate wording when the Risk Register was last considered by Committee.

Risk No. 24, relating to employer covenants, has been updated to reflect the new employer flexibilities which have given administering authorities greater flexibilities for collecting exit payments from employers ceasing their active participation in the Fund.

Risk No. 40, relating to the level of cyber liability insurance relating to the pension administration system, has been updated following further consideration of the level of cover.

Risk No. 42, relating to potential delays to issuing Annual Benefit Statements and Pension Savings Statements, has been updated to reflect possible delays caused by the roll-out of the member self-service system ‘My Pension Online’.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications.

5.2 Appendix 2 – Summary Risk Register

5.3 Appendix 3 – Main Risk Register

6. Recommendation

That the Committee notes the risk items identified in the Risk Register.

7. Reason for recommendation

One of the roles of Committee is to receive and consider the Fund's Risk Register.

Peter Handford

Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Derbyshire Pension Fund Risk Register

Date Last Updated **08-Jul-21** Changes highlighted in blue font.

Objectives

The objectives of the Risk Register are to:

- identify key risks to the achievement of the Fund's objectives;
- consider the risk identified; and
- access the significance of the risks.

Risk Assessment

- Identified risks are assessed separately and assigned a risk score. The risk score reflects a combination of the risk occurring (probability) and the likely severity (financial impact).
- A low risk classification is based on a score of 4 or less; a medium risk score ranges between 5 and 11; and a high risk score is anything with a score of 12 and above.
- The Risk Register also includes the target score; showing the impact of the risk occurring once the planned risk mitigations and controls have been completed.

Risk Assessment	**Impact**	**Probability**
Level 1	Negligible	Rare
Level 2	Low	Unlikely
Level 3	Medium	Possible
Level 4	High	Probable
Level 5	Very High	Almost certain

Officer Risk Owners

DoF	Director of Finance & ICT
HoP	Head of Pension Fund
TL	Team Leader
IM	Investments Manager

Summary of Risk Scores	
Low Risk	5
Medium Risk	38
High Risk	4
Total Risks	**47**

Risk Score	
0 - 4	Low Risk
5 - 11	Medium Risk
12 and above	High Risk

Summary of Risk Scores Greater Than Eight

Risk Ranking	Main Risk Register No	Risk Area (Identification)	High Level Risk (Identification)	Impact (Current score)	Probability (Current score)	Current Score	Risk Owner (Target Score)	Impact (Target Score)	Probability (Target Score)	Target Score	Actual Minus Target Score	Previous Score
1	19	Funding & Investments	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	4	3	12	HoP/IM	4	2	8	4	12
2	30	Funding & Investments	LGPS Central related underperformance of investment returns - failure to meet investment return targets against specified benchmarks	4	3	12	HoP/IM	4	2	8	4	12
3	37	Funding & Investments	Impact of McCloud judgement on funding	3	4	12	HoP	3	3	9	3	12
4	44	Pensions Administration	Impact of McCloud judgement on administration	3	4	12	HoP	2	4	8	4	12
5	1	Governance & Strategy	Failure to implement an effective governance framework	5	2	10	DoF/HoP	5	1	5	5	10
6	2	Governance & Strategy	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff	3	3	9	HoP	3	2	6	3	9
7	4	Governance & Strategy	Pensions & Investments Committee (PIC)/Pension Board (PB) members lack of understanding of their role & responsibilities leading to inappropriate decisions.	3	3	9	HoP	3	2	6	3	9
8	14	Governance & Strategy	Failure to comply with General Data Protection Regulations (GDPR)	3	3	9	HoP/IM/TL	3	2	6	3	9
9	15	Governance & Strategy	Failure to communicate with stakeholders	3	3	9	HoP/IM/TL	3	2	6	3	9
10	17	Governance & Strategy	Risk of challenge to Exit Credits Policy	3	3	9	HoP	3	2	6	3	9
11	24	Funding & Investments	Covenant of new/existing employers. Risk of unpaid funding deficit	3	3	9	HoP/TL	3	2	6	3	9
12	26	Funding & Investments	Employer contributions not received and accounted for on time	3	3	9	HoP/TL	3	1	3	6	3
13	29	Funding & Investments	LGPS Central Ltd fails to deliver the planned level of long term cost savings	3	3	9	HoP/IM	3	2	6	3	8
14	42	Pensions Administration	Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance Statements)	3	3	9	HoP/TL	3	1	3	6	6
15	3	Governance & Strategy	Failure to comply with regulatory requirements for governance	4	2	8	HoP	4	1	4	4	4
16	5	Governance & Strategy	An effective investment performance management framework is not in place	4	2	8	HoP/IM	4	2	8	0	6
17	10	Governance & Strategy	Pension Fund financial systems not accurately maintained/Member or Officer fraud	4	2	8	HoP	4	1	4	4	6
18	13	Governance & Strategy	Systems failure/Lack of disaster recovery plan/Cyber attack	4	2	8	HoP/IM/TL	4	1	4	4	8
19	16	Governance & Strategy	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption	4	2	8	HoP/IM	4	2	8	0	8
20	18	Governance & Strategy	Risks arising from a potential significant acceleration of the academisation of schools.	4	2	8	HoP/TL	4	2	8	0	N/A
21	20	Funding & Investments	Mismatch between liability profile and asset allocation policy	4	2	8	HoP/IM	4	2	8	0	8
22	21	Funding & Investments	An inappropriate investment strategy is adopted/Investment strategy not consistent with Funding Strategy Statement/ Failure to implement adopted strategy and PIC recommendations	4	2	8	HoP/IM	4	2	8	0	8
23	22	Funding & Investments	Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy	4	2	8	HoP/IM	4	2	8	0	12
24	23	Funding & Investments	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio	4	2	8	HoP/IM	4	2	8	0	N/A
25	27	Funding & Investments	The LGPS Central investment offering is insufficient to allow the Fund to implement its agreed investment strategy	4	2	8	HoP/IM	4	1	4	4	8
26	28	Funding & Investments	The transition of the Fund's assets into LGPS Central's investment vehicles results in a loss of assets/and or excessive transition costs	4	2	8	HoP/IM	4	2	8	0	8
27	40	Pensions Administration	Insufficient cyber-Liability Insurance relating to the pensions administration system	4	2	8	HoP	4	2	8	0	8
28	47	Pensions Administration	Adminstration issues with AVC provider	2	4	8	HOP/TLs	2	2	4	4	N/A

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Derbyshire Pension Fund Risk Register

Date Last Updated **08-Jul-21**

Changes highlighted in blue font.

Risk Number	Description: High Level Risk	Description: Description of risk and potential impact	Current score: Impact	Current score: Probability	Current score: Current Score	Risk Mitigation Controls & Procedures: Current	Risk Mitigation Controls & Procedures: Proposed	Risk Owner	Target Score: Impact	Target Score: Probability	Target Score: Target Score	Target Score: Actual Minus Target Score	Previous Score
Governance & Strategy													
1	Failure to implement an effective governance framework	Failure to provide effective leadership, direction, control and oversight of Derbyshire Pension Fund (DPF) leading to the risk of poor decision making/lack of decision making, investment underperformance, deterioration in service delivery and possible fines/sanctions/reputational damage . This risk could be amplified during a period of business disruption.	5	2	10	Derbyshire County Council (DCC) is the administering authority for the Pension Fund, responsible for managing and administering the Fund. Responsibility for the functions of the Council as the administering authority of DPF is delegated to the Pensions & Investments Committee (PIC). A Local Pension Board assists the Council with the governance and administration of the Fund (PB). Day to day management of the Fund is delegated to the Director of Finance & ICT (DoF) who is supported by the Head of Pension Fund (HOP) and in house investment and administration teams. The governance arrangements for the Fund are clearly set out in the Fund's Governance Policy and Compliance Statement which is reviewed each year. Both PIC & PB have detailed Terms of Reference. The Commissioning, Communities & Policy Scheme of Delegation sets out authorising levels for officers. The management team (POM) of the Pension Fund meets weekly and a Pension Fund Plan documents the ongoing workload of the Fund. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board. A detailed Business Continuity Plan sets out the arrangements for maintaining the critical activities of the Fund during a period of business disruption. Arrangements have been developed to facilitate virtual PIC and virtual PB meetings for occasions when physical meetings are not possible.	Arrangements are being developed to enable PB members without .gov.uk addresses to fully participate in virtual PIC meetings (noting that physical PIC meetings are expected to resume after May 21).	DOF/HoP	5	1	5	5	10
2	Failure to recruit and retain suitable Pension Fund staff/Over reliance on key staff.	Lack of planning, inadequate benefits package, remote location leads to failure to recruit and retain suitable investment and pension administration staff leading to the risk of inappropriate decision making, investment underperformance, deterioration in service delivery, over reliance on key staff and possible fines/sanctions/reputational damage. The risks related to over-reliance on key staff are amplied during a period of business disruption.	3	3	9	Knowledge sharing takes place through Pension Fund governance groups including: Pension Officer Managers (POM); Regulation Update Meeting (RUM); Data Management; and Backlog Management, targeted internal training sessions, team briefings, internal communications and My Plans. The Fund also works with the LGA to support the devel+N73opment of Fund training and utilizes Heywood's TEC online training facilities. A Pension Fund Plan is available to all members of POM and includes a brief summary of the main onoing and forecast activities of the Fund. The investment staffing structure was reviewed post the implemenation of investment pooling. Market supplements for the HOP and the IM were extended from December 2019. A new Assistant Fund Manager joined the Fund at the beginning of May 20. In response to the COVID 19 outbreak, members of the Fund's management team are working in different locations, and managers are in regular contact with their teams. The Pension Fund Plan is being updated on a more regular basis to ensure that all members of POM are up to date with all Pension Fund activities.	The Fund will continue to identify and meet staff training needs and will consider further staff rotation to increase resilience. The Pension Fund staffing structure is currently being reviewed.	HoP	3	2	6	3	9
3	Failure to comply with regulatory requirements for governance	Failure to match-up to recommended best practice leads to reputational damage, loss of employer confidence or official sanction.	4	2	8	DPF maintains current PIC approved versions of: Administering Authority Discretions; Admission, Cessation & Bulk Transfer Policy; Communications Policy Statement; Exit Credits Policy; Governance Policy & Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy. Governance framework includes PIC and Pension Board. Appointment of third party advisor and actuary. Annual Report and Accounts mapped to CIPFA guidance. Fund membership of LAPFF. Internal and External Audit. Member training programme.	Regular review / Maintain central log of governance policy statements for the whole Fund.	HoP	4	1	4	4	8
4	PIC / Pension Board members lack of knowledge & understanding of their role & responsibilities leading to inappropriate decisions	Change of membership (particularly following elections), lack of adequate training, poor strategic advice from officers & external advisors leads to inappropriate decisions being taken.	3	3	9	Implementation of Member Training Programme including induction training for new members of PIC & PB / Attendance at LGA training program / Advice from Fund officers & external advisors.	On-going roll out of Member Training Programme in line with CIPFA guidance. Targeted training for 'new' subjects being considered by PIC.	HoP	3	2	6	3	9
5	An effective investment performance management framework is not in place	Poor investment performance goes undetected / unresolved.	4	2	8	PIC training; external performance measurement is reported to committee on a quarterly basis; Pension Board oversight of the governance of investment matters; My Plan Reviews. Review of the Pension Fund performance Dashboard.		HoP/IM	4	2	8	0	8
6	An effective pensions administration performance management framework is not in place	Poor pensions administration performance / service goes undetected / unresolved.	3	2	6	PIC training; Half year pension administration KPI reporting in line with Disclosure Regulations reviewed by PIC and DoF; My Plan Reviews. An Operations Development Project has been started to review workflows, letters and KPIs. The Project started with Deaths and will then move onto Retirements. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.	Output from the Operations Development Project to be incorporated in processes and target setting.	HoP/TL	3	2	6	0	6
7	An effective PIC performance management framework is not in place	Poor PIC performance goes undetected / unresolved.	3	2	6	Defined Terms of Reference; PIC training ;Support from suitably qualified officers and external advisor; Monitoring of effectiveness of PIC by Pension Board. A Pension Fund performance Dashboard has been developed to provide performance management information for POM; it will also be reviewed on a quarterly basis by the Finance & ICT Management Team and at meetings of the Pension Board.	Training as above (Risk No. 4).	HoP/IM	3	2	6	0	6
8	Failure to identify and disclose conflicts of interest	Inappropriate decisions for personal gain.	3	1	3	Members Declaration of Interests. Officer conflict of interest declarations in respect of investment pooling. Officer disclosure of personal dealing and hospitality.Investment Compliance incorporated into updated Investments Procedures & Compliance Manual. Fund Conflicts of Interest Policy approved by PIC in November 2020.	Procedures are being developed to implement the Fund's Conflicts of Interest Policy.	HoP	3	1	3	0	3
9	Failure to identify and manage risk	Failure to prepare and maintain an appropriate risk register results in poor planning, financial loss and reputational damage.	3	2	6	Risk Register maintained, reviewed on a regular basis, discussed at formal and informal POMs and reported to PIC quarterly and to PB meetings. PB to review the Risk Register in detail on an annual basis.	PB to review the Risk Register in detail on an annual basis.	HoP/IM	3	2	6	0	6

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Current score: Probability	Current score: Current Score	Risk Mitigation Controls & Procedures: Current	Risk Mitigation Controls & Procedures: Proposed	Risk Owner	Target Score: Impact	Target Score: Probability	Target Score: Target Score	Target Score: Actual Minus Target Score	Previous Score
10	Pension Fund financial systems not accurately maintained / Member or Officer fraud	Member or officer fraud, financial loss and reputational damage.	4	2	8	Creation and documentation of Internal controls; internal/external audit; monthly key control account reconciliations; on-going training & CIPFA updates.	Development of Fund-wide Procedures Manual.	HoP	4	1	4	4	6
11	Pension Fund accounts not properly maintained	Unfavourable audit opinion, financial loss, loss of stakeholder confidence and reputational damage.	3	2	6	Compliance with SORP; Compliance with DCC internal procedures (e.g. accounts closedown process); Dedicated CIPFA qualified Pension Fund Accountant; Support from Technical Section; Internal Audit; External Audit.		DoF/HoP	3	2	6	0	6
12	Lack of robust procurement processes leads to poor supplier selection and legal challenge	Breach of Council Financial Regulations & reputational damage.	3	1	3	Database of external contracts maintained; Compliance with Financial Regulations; Procurement due diligence; Procurement advice.	Quarterly review of all contracts.	HoP	3	1	3	0	3
13	Systems failure / Lack of disaster recovery plan / Cyber attack	Service failure, loss of sensitive data, financial loss and reputational damage.	4	2	8	Robust system maintenance; Password restricted to IT systems; IGG Compliance; Business continuity plan.	Review of Cyber Security Arrangements/Policies. Enhanced Data Management Procedures document to include section on cyber crime/cyber risk. Mapping exercise to be undertaken to map where the Fund's data is held, on what systems, how it is combined and how and where it moves. Review of the information security arrangements of 3rd party suppliers to the Fund to be undertaken.	HoP/IM/TL	4	1	4	4	8
14	Failure to comply with General Data Protection Regulations (GDPR)	Breaches in data security requirements could result in reputational damage and significant fines.	3	3	9	Privacy Notices and Memorandum of Understanding completed and published. GDPR Implementation Plan completed. GDPR requirements included in the Data Improvement Plan. Document Retention Schedule review completed. Data Breach Procedure developed.The Fund's GDPR Working Group has been widened out to become a Data Management Working Group.	Further develop the Fund's Data Breaches Procedure incorporating lessons learnt from any data breaches and to include guidance on the practicalities of dealing with a breach beyond the initial reporting requirements. This will be included in a wider Data Management Procedures document which will include guidance to Fund officers on how the data protection rules should be applied to inform decisions and day to day working practices with respect to processing personal data in order to avoid data breaches. GDPR matters will be reviewed as part of the ongoing consideration of the Fund's Data Improvement Plan.	HoP/IM/TL	3	2	6	3	9
15	Failure to communicate with stakeholders	Employers being unaware of employer responsibilities could impact service levels to members or lead to statutory/data breaches. Employees being unaware of how the Fund is governed, the benefits of the scheme, how the Fund's assets are invested invested, the risk of breaching the annual pension savings allowance, the risk of pension scams and the importance of keeping contract details up to date could lead to disengagment between members and the Fund, financial impacts for members, and reputational damage to the Fund.	3	3	9	Communications Policy considered by PIC - April 2021. The Pension Administration Strategy (PAS) which sets out employer responsibilities is reviewed annually and highlighted to employers. For any material proposed changes to the PAS, employers will be consulted. Stakeholders receive information and guidance in line with best practice discussed at the national LGPS Comms Forum, delivered by a fully resourced, specialist team. The Pension Fund website and clear Pension Fund branding helps stakeholders to be clear about the role of the Fund.	Stage 2 of the development of the pension administration system will include interactive functionality and access to ABSs and monthly pay information. Registration will enable Fund members to access more information to improve their general understanding and support them with pension planning.	HoP/IM/TL	3	2	6	3	9
16	Failure of internal/external suppliers to provide services to the Pension Fund due to business disruption.	The Pension Fund is reliant on other DCC Sections for: the provision and support of core IT; treasury management of Fund cash; CHAPs & VIM & Standard SAP BACs payments; pensioner payroll; and legal advice and administration support to PIC & PB. The Fund is reliant on external providers for: the pension administration system; provision of custodial services; hedging services; performance measurement and actuarial services. External fund managers are responsible for management of a large proportion of the Fund's assets on both a passive and an active basis. Business continuity failures experienced by any of these providers could have a material impact on the Fund.	4	2	8	The business continuity arrangements of all of these providers have been sought and received by the Pension Fund. During the COVID 19 outbreak to date, continuity arrangements have worked well.	The Fund will keep up to date with the continuity arrangments of these providers and will continue to assess the risk of exposure to particular organisations/providers.	HoP/IM	4	2	8	0	8
17	Risk of challenge to Exit Credits Policy.	Exit credit payments were introduced into the LGPS in April 2018. Amending legislation came into force on 20 March 2020 allowing administering authorities to exercise their discretion in determining the amount of any exit credit due having regard to certain listed factors plus 'any other relevant factors'. This discretion is open to wide interpretation and potential challenge from employers.	3	3	9	Legal and actuarial advice was sought in the forumulation of the Fund's Exit Credit Policy and has been sought to assist the Fund's first exit credit determination.	The Fund will keep up to date with developments with respect to exit credits. Further legal and actuarial advice will be sought where necessary.	HoP	3	2	6	3	9
18	Risks arising from a potential significant acceleration of the academisation of schools.	Any further division of LGPS members into an increasingly wider pool of employers will increse pressure on: employer onboarding; collection of data & contributions; employer training; & actuarial matters. Also likely to lead to an increasing in the outsourcing of functins and services involveing LGPS members which in turn would lead to a further increase in the number of employers in the Fund. The evolving landscape of multi-academy trusts is alsp introducing increased administrative and funding challenges as academies move between trusts and trusts consolidate their academies into single LGPS funds.	4	2	8	The Fund has a robust effective procedure for admitting new academies to the Fund, treating them as individual participating employoers backed by robust administrative and actuarial arrangements; this helps to mitigate some of the issues that arise when academies move between trusts.	The Fund will continue to monitor local developments on academisation and the administrative resource required by the Fund to support any increase in participating employers. The funding implications of any academies consolidating in another LGPS fund will also be kept under review.	HoP/TL	4	2	8	0	N/A

Funding & Investments

Risk Number	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
19	Fund assets insufficient to meet liabilities / Decline in funding level / Fluctuations in assets & liabilities	Objectives not defined, agreed, monitored and outcomes reported / Incorrect assumptions used for assessing liabilities / Investment performance fails to achieve expected target / Changes in membership numbers / VR & VER leading to structural problems in Fund / Demographic changes / Changes in pension rules and regulations (e.g. auto-enrolment and Freedom & choice). These factors could contribute to a decline in the funding level of the Fund and result in employers (funded in the majority of cases by taxpayers) needing to make increased contributions to the Fund.	4	3	12	Actuarial valuations and determination of actuarial assumptions; Funding Strategy Statement; Annual funding assessment (under review under new risk based valuation method); Setting of contribution rates; Regular review of the Investment Strategy Statement (ISS) and the Strategic Asset Allocation Benchmark; Quarterly reviews of tactical asset allocation; Due diligence on new investment managers; Monitoring of investment managers' performance; Maintenance of key policies on ill health retirements; early retirements etc.	Continued implementation of the Fund's Strategic Asset Allocation Benchmark which aims to reduce investment risk following the improvement in the Fund's funding level.	HoP/IM	4	2	8	4	12

Risk Number	Description		Current score			Risk Mitigation Controls & Procedures			Target Score				Previous Score
	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	
20	Mismatch between liability profile and asset allocation policy	Inaccurate forecast of liabilities / inappropriate Strategy leading to cashflow problems.	4	2	8	Actuarial reviews; Funding Strategy Statements; Annual funding assessment; Review by PIC; ISS ; Asset allocation reviews; Cash flow forecasting.	The Fund's actuary is due to undertake a cashflow foreasting exercise for the Fund.	HoP/IM	4	2	8	0	8
21	An inappropriate investment strategy is adopted / Investment strategy not consistent with Funding Strategy Statement /Failure to implement adopted strategy and PIC recommendations	Failure to set appropriate investment strategy / monitor application of investment strategy leading to possible impact on the funding level/investment underperformance/reputational damage.	4	2	8	The ISS, which includes the Fund's Strategic Asset Allocation Benchmark is formulated in line with LGPS Regulations and takes into account the Fund's liabilities/information from the Fund's actuary/advice from the Fund's external investment adviser. The ISS was approved by PIC in November following consultation with the Fund's stakeholders. A separate RI Framework and a separate Climate Strategy were also approved by PIC in November following consultation with the Fund's stakeholders. Quarterly review of asset allocation strategy by PIC with PIC receiving advice from Fund officers and external investment adviser.		HoP/IM	4	2	8	0	8
22	Failure to correctly assess the potential impact of climate change on investment portfolio and on funding strategy.	Failure to correctly assess potential financially material climate change risks when setting the investment and the funding strategy leading to possible impact on the funding level/investment underperformance/reputational damage.	4	2	8	Climate Risk Report procured from LGPS Central Ltd - received in February 2020. Discussed with Fund officers. Taskforce on Climate-related Financial Disclosures (TCFD) report developed to set out the Fund's approach to managing climate related risks and opportunities, structured round: governance; strategy; risk management; and metrics and targets. Climate Risk Report and TCFD report presented to PIC in March 2020. Climate change risk discussed with the Fund's actuary as part of the 2019 triennial valuation process. Climate Strategy setting out the Fund's approach to addressing the risks and opportunities related to climate change forumulated and approved by PIC in Nov 20 following consultation with stakeholders. The first phase of the transitions to the increased allocation to Global Sustainable Equities have taken place in January 2021 which will support the delivery of the targets included in the Climate Strategy for reducing the carbon footprint of the listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025 and investing at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.	The second phase of the transitions to increase the allocation to Global Sustainable Equities will take place later in 2021. The carbon footprint & the low carbon and sustainable investment targets will be reviewed in 2023.	HoP/IM	4	2	8	0	8
23	Failure to consider the potential impact of Environmental, Social and Governance (ESG) issues on investment portfolio.	Failure to consider financially material ESG risks when making investment decisions leading to possible investment underperformance/reputational damage.	4	2	8	Responsible Investment Framework setting out the Fund's approach to ESG approved by PIC on Nov-20 following consultation with stakeholders. Ongoing monitoring of investment manager ESG policies and practices, including preparation of quarterly PIC Stewardship Report setting out the stewardship activities of the Fund's key investment managers.	Work ongoing to assess compliance with the updated UK Stewardship Code - the UK Stewardship Code (2020).	HoP/IM	4	2	8	0	8
24	Covenant of new/existing employers. Risk of unpaid funding deficit.	Failure to agree, review and renew employer guarantees and bonds/ risk of wind-up or cessation of scheme employer with an unpaid funding deficit which would then fall on other employers in the Fund. This risk could be amplified during a period of widespread business disruption/extreme market volatility. Failure to correctly assess covenant/put in place appropriate security as part of any debt spreading arrangement/Deferred Debt Agreement could increase the risk of an unpaid funding deficit falling on the other employers in the Fund.	3	3	9	Employer database holds employer details, including bond review dates. The information on the database is subject to ongoing review. Commenced contacting existing employer where bond or guarantor arrangement has lapsed, to renew arrangements. Four members of the team have attended employer covenant training and the Fund has liaised closely with other LGPS on this matter. An Employer Risk Management Framework has been developed and Health Check Questionnaires were issued to all Tier 3 employers (those employers that do not benefit from local or national tax payer backing or do not have a full guarantee or other pass-through arrangement) in May 2019.	Processes are being developed to ensure that new contractors are aware of potential LGPS costs at an early stage. The Employer Risk Management Framework will continue to be developed. Analysis will continue to be carried out on the information received via the completed Health Check Questionnaires and outstanding information will continue to be sought from relevant employers. Employers who are close to cessation will be monitored and discussions with the Fund's Actuary will take place to determine if any further risk mitigation measures are necessary with respect to the relevant employers. Robust procedures will be developed to consider any requests for the Fund to enter into debt spreading arrangements /Deferred Debt Agreements. Covenant, actuarial and legal considerations will be taken into consideration in any decisions regarding debt spreading arrrangements/Deferred Debt Agreements and appropriate security will be obtained where necessary.	HoP/TL	3	2	6	3	9
25	Unaffordable rise in employers' contributions	Employer contribution rates could be unacceptable/unaffordable to employers leading to non-payment/delayed payment of contributions.	3	2	6	Consideration of employer covenant strength / scope for flexibility in actuarial proposals.	The process for reviewing employer contribution rates outside of the actuarial valuation process will be considered during the formulation of a policy to implement the new powers for administering authorities (introduced via the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020) to review employer contributions, spread exit payments and introduce new deferred debt agreements and deferred employer status.	HoP/TL	3	2	6	0	6
26	Employer contributions not received and accounted for on time	Late information and/or contributions from employers could lead to issues with completing the year end accounts, satistying audit requirements, breaches of regulations, and, in extreme cases, could affect the Fund's cashflow. This risk could be amplified during a period of widespread business disruption.	3	3	9	The Fund ensures that employers are clearly and promptly informed about their contribution rates. Monitoring of the provision of employer information and the payment of contributions takes place within Pensions Section and performance is monitored by POM and disclosed in the half yearly pensions administration performance report to PIC & PB. The Fund has developed a late payment charging policy. In response to the COVID 19 outbreak, the Fund has reminded employers of their responsibility to provide information and pay contributions by relevant deadlines.	Late payment charges-applied to underperforming employers will be disclosed via PIC Reports and Employer Newsletters. In response to the COVID 19 outbreak, the Fund will continue to keep in close contact with employers and will deal with any employer requests on a case by case basis.	HoP/TL	3	1	3	6	9

Risk Number	Description: High Level Risk	Description: Description of risk and potential impact	Current score: Impact	Current score: Probability	Current score: Current Score	Risk Mitigation Controls & Procedures: Current	Risk Mitigation Controls & Procedures: Proposed	Risk Owner	Target Score: Impact	Target Score: Probability	Target Score: Target Score	Target Score: Actual Minus Target Score	Previous Score
27	The LGPS Central Ltd investment offering is insufficient to allow the Fund to implement its agreed investment strategy	Failure to provide sufficient and appropriate product categories results in inability to deliver investment strategy and increases the risk of investment underperformance.	4	2	**8**	Continue to take a meaningful role in the development of LGPS Central; On-going HoP/IM involvement design and development of the LGPS Central product offering and mapping to the Fund's investment strategy; Participation in key committees including PAF, Shareholders' Forum and Joint Committee.	LGPS Central Partner Funds have agreed their priorities for determining the timetable for sub-fund launches: Projected level of cost savings; LGPSC/Partner Fund resource; Asset allocation/investment strategy changes; Number of parties to benefit; Net performance; Ensuring every Partner Fund has some savings; Risk of status quo & Surfacing opportunities. Ensure the priorities are regularly assessed and applied.	HoP/IM	4	1	**4**	**4**	**8**
28	The transition of the Fund's assets into LGPS Central Ltd.'s investment vehicles results in a loss of assets and/or avoidable or excessive transition costs	Failure to fully reconcile the unitisation of the Fund's assets and charge through of transition costs could have a financial impact on the Fund.	4	2	**8**	Reconcile the transition of the Fund's assets into each collective investment vehicle, including second review and sign-off. All costs and charges reconciled back to the agreed cost sharing principles. All transition costs to be signed off by HoP.	Obtain robust forecasts of transition cost as part of business case for transitioning into an LGPSC sub-fund. Continue to update control procedures now that LGPS Central has been launched and reporting structures have been established. Continue to take a meaningful role in PAF and support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee.	HoP/IM	4	1	**4**	**4**	**8**
29	LGPS Central Ltd fails to deliver the planned level of long term cost savings	LGPS Central Ltd fails to deliver the planned level of cost savings either through transition delays, poor management of its cost base or failure to launch appropriate products at the right price could delay the point at which the Fund breaks even (with costs savings outweighing the costs of setting up and running the company).	3	3	**9**	Review and challenge annual budget and changes to key assumptions; Review, challenge and validate LGPS Central product business cases; Quarterly update of the cost savings model; Reconcile charged costs to the agreed cost sharing principles; Terms of Reference agreed for PAF, Shareholders Forum and Joint Committee. The DOF & ICT will represent DCC on the Shareholders' Forum with delegated authority to make decisions on any matter which required a decision by the shareholders of LGPC Central Ltd.	Update control procedures now that LGPS Central Ltd has been launched and reporting structures have been established. Continue to take a meaningful role in PAF. Support the Chair and Vice-Chair of the PIC to enable them to participate fully in the Joint Committee.	HoP/IM	3	2	**6**	**3**	**8**
30	LGPS Central Ltd related underperformance of investment returns	LGPS Central Ltd related underperformance of investment returns against targets could lead to the Fund failing to meet its investment return targets.	4	3	**12**	Continuing to take a meaningful role in the development of LGPS Central; On-going HoP/IM involvement in design and development of the LGPS Central product offering and mapping to the Fund's investment strategy; Quarterly performance monitoring reviews at both a DPF and Joint Committee level. Monitor and challenge LGPS Central product development, including manager selection process, through the Joint Committee and PAF/IWG participation. Initially carry out due diligence on selection managers internally as confidence is built in the manager selection skills of the company.	Ensure the Partner Funds priorities for determining the sub-fund launch timetable listed under 26. are regularly assessed and applied. Investigate alternative options if any underperformance is not addressed.	HoP/IM	4	2	**8**	**4**	**12**
31	The UK's withdrawal from the EU results in high levels of market volatility or regulatory changes	Failure to identify and mitigate key risks caused by outcome of the UK's decision to withdrawal from the EU.	3	2	**6**	Continual monitoring of asset allocation and performance by investment staff and quarterly monitoring by PIC. Keep up to date with developments with respect to the UK's relationship with the EU and the implications for the Fund's investment strategy. There are no proposed or imminent amendments to proposed LGPS Investment Pooling as a result of the UK's withdrawl from the EU.	Monitor regulatory changes, and continually monitor asset allocation.	HoP/IM	3	2	**6**	**0**	**6**
32	Failure to maintain liquidity in order to meet projected cash flows	Failure to maintain sufficient liquidity to meet projected cashflows which could lead to financial loss from the inappropriate sale of assets to generate cash flow. The risk is amplified during periods of market volatility/dislocation.	3	2	**6**	The Fund carries out internal cash flow forecasting and works closely with DCC's Senior Accountant Treasury Management who manages the Fund's cash balances.	The Fund's actuary is due to undertake a cashflow foreasting exercise for the Fund.	HoP/IM	3	2	**6**	**0**	**6**
33	The introduction of The Markets in Financial Instruments Directive II (MiFID II) in January 2018 results in the investment status of the Fund being downgraded	Fund being unable to access a full range of investment opportunities and assets being sold at less than fair value should an external investment manager not opt-up the Fund to professional status.	4	1	**4**	Opt-up process complete; no issues identified.	Monitor ability to maintain opt-up status.	HoP/IM	4	1	**4**	**0**	**4**
34	Inadequate delivery and reporting of performance by internal & external investment managers	Could lead to expected investment returns not being achieved.	3	2	**6**	Rigorous manager selection; Quarterly PIC performance monitoring; Asset class performance reported to PIC; Internal Investments Manager performance reviewed by HoP; My Plan reviews.	Updating the Investment Compliance Manual & Procedures Manual.	HoP/IM	3	2	**6**	**0**	**6**
35	Investments made in complex inappropriate products and or unauthorised deals	Could lead to loss of investment return/assets.	4	1	**4**	Clear mandate for internal and external Investment Managers; Compliance Manual; HoP signs off all new investment; PIC approval required for unquoted investments in excess of £25m; PIC quarterly reports; On-going staff training and CPD; My Plans.	Updating Investment Compliance Manual & Procedures Manual	HoP/IM	4	1	**4**	**0**	**4**
36	Custody arrangements are insufficient to safeguard the Funds investment assets	Could lead to loss of investment return/assets.	4	1	**4**	Regular internal reconciliations to check custodian records / Regular review of performance / Periodic procurement exercises.		HoP/IM	4	1	**4**	**0**	**4**

Risk Number	Description: High Level Risk	Description of risk and potential impact	Current score: Impact	Probability	Current Score	Risk Mitigation Controls & Procedures: Current	Proposed	Risk Owner	Target Score: Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
37	Impact of McCloud judgement on funding	The LGPS Scheme Advisory Board (SAB) announced a pause in the cost cap process for the LGPS pending the outcome of the McCloud case (transitional protections). Following the publication of the proposed McCloud remedy for consultation, SAB is considering its options regarding the pause of its cost cap process. It is proposed that the McCloud remedy in the LGPS will be backdated to the commencement of transitional protections (April 2014). For cost cap changes the Government has stated its intention to apply these from April 2019. There is, therefore, uncertainty regarding the level of benefits earned by members from 1st April 14. The funding risk relates to the risk of there being insufficient assets within the Fund to meet the increased liabilities. In the short term, the impact of this uncertainty is greatest for exit payments and credits as at a cessation event, the cost of benefits is crystallised. MHLCLG published a consultation on its proposed McCloud remedy in July 2020. The proposed remedy involves the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removes the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection. It is also proposed that underpin protection will apply where a members leaves with either a deferred or an immediate entitlement to a pension (previously it was just immediate). The underpin will give the member the better of the 2014 Scheme CARE or 2008 final salary benefits for the eligble period of service. All leavers since 2014 will need to be checked against the new underpin. The remedy is not expected to be implemented before the end of the financial year 2020/21. Therefore, issues around FRS102 and audit will once again need to be addressed.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. The Actuary has made an estimate of the potential impact of the judgement on the Fund's liabilities. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund's actuary has adjusted GAD's estimate to better reflect the Derbyshire's Funds local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Derbyshire Pension Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.5% higher as at 31 March 2020, an increase of approximately £31.1m. The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. A paper was procured from the Fund's actuary to inform a discussion on the how the Fund should allow for McCloud in funding decisions. In line with advice issued by SAB, the 2019 valuation calculations have been based on the current benefit structure. No allowance has been made for the possible outcome of the cost cap mechanism or the McCloud case, although an extra level of prudence has been introduced in the setting of employer contribution rates to allow for the potential impact of the McCloud case. This has been clearly communicated to employers in the valuation letters. The Funding Strategy Statement includes an allowance for a 1% uplift in a ceasing employer's total cessation liability for cessation valuations that are carried out before any changes to the LGPS benefit structure are confirmed.	Contribution rates may need to be revisited once the McCloud/cost cap uncertainty is resolved.	HOP	3	3	9	3	12

Pensions Administration

Risk Number	High Level Risk	Description of risk and potential impact	Impact	Probability	Current Score	Current	Proposed	Risk Owner	Impact	Probability	Target Score	Actual Minus Target Score	Previous Score
38	Failure to adhere to HMRC / LGPS regulations and reflect changes therein	LGPS benefits calculated and paid inaccurately and/or late leading to possible fines/reputational damage.	3	2	6	Management processes, calculation checking, dedicated technical and training resource, working with the LGA and other Pension Funds regarding accurate interpretation of legislation, implemented more robust pensions administration system in March 19.	Consider legal support options e.g. legislation databases, continued DCC provision vs 3rd party provider etc.	HoP	3	1	3	3	6
39	Failure of pensions administration systems to meet service requirements / Information not provided to stakeholders as required	Replacement pensions administration system leads to implementation related work backlogs, diminished performance and complaints.	3	2	6	The Altair system has achieved 'Business as Usual' status. SLAs are in place with the provider as well an established fault reporting system, regular client manager meetings and a thriving User Group. The provider has a robust business continuity plan.	Ensure Business Continuity Plan is subject to regular review.	HoP/TL	3	1	3	3	6
40	Insufficient cyber-liability insurance relating to the pensions administration system	The contract with the system supplier limits a cyber liability claim to £2m, unless a claim is based on an event caused by the contractor performing its services in a negligent manner. Separately, DCC has £3m of cyber liability cover through its insurance arrangements. A catastrophic breach where scheme members' data is used fraudulently could lead to a claim in excess of the insurance cover.	4	2	8	DCC Internal Audit has carried out detailed testing of the supplier's data security arrangements. Liability cover in place via the supplier and separately via DCC (not combined). The supplier required to carry £5m of professional indemnity insurance as part of the contract.	Ongoing feedback to the new supplier on the level of supplier liability insurance. Further enhancement of procedures to protect against cyber risk.	HoP	4	2	8	0	8
41	Data quality inadequate	Incorrect benefit calculations, inaccurate information for funding purposes leading to possible complaints/ fines/reputation damage/uninformed decision making.	3	2	6	Apply current and short term measures in the Data Improvement Plan. A Data Management Working Group has been formed, and Terms of Reference agreed, with responsibility for the ongoing consideration and implementation of the Data Improvement Plan.	Continue to cleanse data; implement longer term measures in the Data Improvement Plan. Maintain regular meetings of the Data Management Group.	TL	3	2	6	0	6
42	Delayed Annual Benefit Statements and/or Pension Savings Statements (also know as Annual Allowance Statements)	Risk of complaints,TPR fines or other sanctions/reputational damaged caused by delays in issuing Annual Benefit Statements/Pensions Savings Statement. Possible delays caused by late employer returns, systems bulk processing issues, administration backlogs, and the roll-out of the member-self service system 'My Pension Online'.	3	3	9	Improved processes, clear messages to support employers to provide prompt accurate information, more efficient processing of ABSs on replacement system, exercise to trace addresses for missing deferred beneficiaries. Robust roll out plan for member self service system and back up plans in place for printing paper ABSs.	Continue work with employers to ensure better data quality, complete address checking exercise and reduce additional backlogs caused by migration. Improve process for identifying non-standard cases of annual pension savings breaches.	HoP/TL	3	1	3	6	9
43	Insufficient technical knowledge	Failure to develop, train suitably knowledgeable staff leading to risk of negative impact on service delivery and risk of fines/sanctions together with risk of reputational damage.	3	2	6	Updates from LGA/LGPC, quarterly EMPOG meetings/on-site training events. The Fund has procured an additional service from the provider of the new pension administration system which provides flexible learning on demand.	Skills gap audit / formal training programme / Staff Development group/My Plan reviews.	HoP	3	2	6	0	6
44	Impact of McCloud judgement on administration	The LGPS SAB recognises the enormous challenge that could be faced by administering authorities and employers in potentially backdating scheme changes over a significant period. A full history of part time hour changes and service break information from 1st Apr 14 will be needed in order to recreate final salary service. Implementation of the remedy could divert Fund resources and affect service deliivery levels. See Risk No. 36 for further information on the McCloud judgement.	3	4	12	Keeping up to date with news from the Scheme Advisory Board, the LGA, the Government Actuary's Department and the Fund's Actuary. Liasing with the provider of the Fund's pension administration system as they develop their bulk processes for implementing the McCloud remedy. Although the Fund has continued to require employers to submit information about changes in part-time hours and service breaks, the McCloud remedy may generate additional queries about changes since 1 Apr 14; employers have, therefore, been asked to retain all relevant employee records. A McCloud Project Team has been set up with initial workstreams of: governance; case identification; staffing/resources; & communications. The Fund has identified the likely members in scope of the proposed remedy. A response to the MHCLG consultation on Amendements to the Statutory Underpin was submitted by the Fund. Tools have been provided by Aquila Heywood for testing on Altair which would be used to identify and subsequently bulk load any required additional service history.	Forumulate a detailed plan of how to deal with the scheme changes as soon as they are confirmed and it is clear what bulk processes the provider of the pension administration system will be putting in place.	HoP	2	4	8	4	12
45	Lack of two factor authentication for Member Self Service	The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line. The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method.	3	2	6	Robust registration and log-on procedures have been developed which have been approved by the Council's Information Governance Group (IGG). A further report on the setting of security questions has been taken to IGG for noting.	The Fund will continue to encourage Aquila Heywood to introduced two factor authentication for MSS (it has been introduced for the core Altair product).	HoP/TLs	3	2	6	0	6

Risk Number	Description: High Level Risk	Description: Description of risk and potential impact	Current score: Impact	Current score: Probability	Current score: Current Score	Risk Mitigation Controls & Procedures: Current	Risk Mitigation Controls & Procedures: Proposed	Risk Owner	Target Score: Impact	Target Score: Probability	Target Score: Target Score	Target Score: Actual Minus Target Score	Previous Score
46	Implications of Goodwin ruling.	Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages. A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit that a comparable same-sex survivor. The government concluded that changes are required to the TPS to address the discrimination and believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner or a female scheme member is in similar circumstances. A consultation will take place on the required regulatory changes for the LGPS. It is expected that the fund will need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships were introduced which will provide administration challenges.	2	3	6	The Fund is keeping up to date with developments on the implications of this ruling for the LGPS.	Further mitigating controls/procedures will be developed when more is known about this recently emerged risk.	HoP/TLs	2	3	**6**	**0**	**6**
47	Administration issues with AVC provider.	Following the implementation of a new system, the Fund's AVC provider, Prudential, has experienced delays in processing contributions, providing valuations and paying out claims which could lead to knock-on delays for the Fund in processing members' retirements. There is also a risk of associated reputational damage for the Fund which has appointed Prudential as its AVC provider.	2	4	8	The Fund is in regular correspondence with Prudential regarding the outstanding issues and is working with the company to try to ensure that any issues which could delay members' retirement dates are dealt with first. This matter is also on the agenda of the officer group of local LGPS funds' (EMPOG).	The Fund will continue to work closely with Prudential to support the resolution of outstanding issues.	HoP/TLs	2	2	**4**	**4**	**8**

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

21 July 2021

Report of the Director of Finance & ICT

Arrangements for the Determination of Stage 2 Applications under the LGPS Applications for Adjudication of Disagreements Procedure

1. Purpose of the Report

To seek approval for the delegation to the Director of Finance & ICT to determine arrangements for deciding the outcome of appeals at the second stage of the Adjudication of Disagreements Procedure under the Local Government Pension Scheme Regulations 2013 (LGPS 2013).

2. Information and Analysis

Regulations

Under Regulation 74 of LGPS 2013, Derbyshire County Council (DCC), as the administering authority of Derbyshire Pension Fund (the Fund/Pension Fund), and each participating employer in the Pension Fund, are required to appoint an adjudicator to consider applications by pension scheme members, or other stakeholders, for adjudication of their disagreement with a pension related first-instance decision made by the administering authority or the scheme employer. The adjudicators are required to make decisions on each application at Stage 1 of the ‘Applications for Adjudication of Disagreements Procedure’ (AADP) and provide written notice of their decision, or reasons for any delays in being able to make a decision, to the applicant within two months of the application having been received.

Under Regulation 76 of LGPS 2013, DCC, as the administering authority of Derbyshire Pension Fund , must consider appeals from Fund members or others who disagree with an adjudicator’s Stage 1 findings, at Stage 2 of AADP and also provide written notice of its decision, or reasons for any delays in being able to make a decision, to the applicant within two months of the Stage 2 application having been received.

LGPS 2013 requires that no person involved in the making of either the first-instance decision or the Stage 1 decision is involved in the reconsideration process at Stage 2.

DCC Constitution
Article 12 of the Constitution of Derbyshire County Council, which sets out the role and function of the Pensions and Investments Committee (the Committee), requires that the Committee ensures that arrangements are in place for the adjudication of AADP applications (including the appointment of adjudicators).

The adjudication process
The role of the adjudicator at AADP Stages 1 and 2, is to examine and review the making of the original first-instance decision which has been disputed, and to determine whether it had been made and applied correctly in compliance with appropriate legislation, statutory guidance, policies or other guiding principles.

Appeals which are submitted through AADP may be connected to any pension related decision made by a participating employer or the administering authority.

The majority of applications submitted, relate to an individual scheme member's dissatisfaction with a decision made about their entitlement to, or calculation of, pension benefits. The most commonly disputed decisions referred to AADP, relate to entitlement to the early release of pension benefits on the grounds of ill-health.

At Stage 1, the member has the right to apply to an adjudicator appointed by their scheme employer or the administering authority of the Fund, dependant on who made the decision on which the complaint is based.

Where the decision was made by the Fund, the administering authority's appointed adjudicator reviews the decision at Stage 1 to determine whether evidence supports upholding the member's complaint against the actions and decisions made by the Fund, and where necessary, what corrective actions or remedy should be applied. Where the decision was made by a scheme employer, the scheme employer's appointed adjudicator reviews the decision at Stage 1.

Where applicants remain dissatisfied with the outcome following consideration at AADP Stage 1, they may escalate their dispute or disagreement to AADP Stage 2, and, if they remain dissatisfied following the Stage 2 decision, they may further escalate their dispute or disagreement to The Pensions Ombudsman.

Determinations made by The Pensions Ombudsman are final, binding and enforceable in court, unless there is a successful appeal on a point of law. There is no financial limit to an award of financial redress which the Ombudsman can enforce.

AADP Stage 1 adjudicators
Currently, applications submitted under AADP Stage 1 are adjudicated as follows:

- Disputes against a decision by DCC in its role as an LGPS employer are currently adjudicated by Mrs Mary Fairman in her role as the acting Assistant Director of Legal Services.
- Disputes against a decision by other participating LGPS employers are adjudicated by the person appointed by each employer.
- Disputes against a decision by DCC in its role as the administering authority of Derbyshire Pension Fund are also currently adjudicated by Mrs Mary Fairman in her role as the acting Assistant Director of Legal Services.

Current practice for adjudicating AADP Stage 2 applications
All applications referred to the administering authority at AADP Stage 2 are currently reviewed and determined by the Committee during the exempt part of meetings following consideration of a detailed report prepared by officers of the Fund. Information related to individual members, which often includes confidential medical records, is anonymised and redacted where appropriate.

Reason for review of arrangements
The complexity of administering and managing LGPS funds has increased in recent years due to the introduction of the new scheme in 2014, the increased number and diversity of employers in the scheme, and the introduction of investment pooling. At the same time, oversight of LGPS funds has increased following the introduction of the LGPS Scheme Advisory Board (SAB) and Local Pension Boards and the extension of The Pension Regulator’s duties to include oversight of the governance and administration of the LGPS.

The adjudication of applications at AADP Stage 2 involves a review of first instance decisions and their reconsideration at AADP Stage 1, based on compliance with legislation and procedure; the process of reaching a decision is a determination of fact based on operational compliance which requires a thorough understanding of the relevant regulations.

The recent Hymans Robertson Good Governance: Phase 3 Report to SAB noted that a pension committee member is not being asked to be a subject matter expert or to act operationally.

Putting in place alternative arrangements for considering individual applications at AADP Stage 2, would allow Committee to increase its focus on strategic matters, further strengthening Committee's oversight of the governance of the Pension Fund. Additionally, alternative arrangements outside of the Committee's cycle of meetings would support decision making within the required timescales.

Practice in other administering authorities
To assist the Committee's review of arrangements for AADP Stage 2 adjudications, Fund officers have undertaken a survey of six other LGPS funds who collaborate on joint LGPS working groups. The results of the survey are attached at Appendix 2.

The findings of the survey demonstrate that other Funds' operational arrangements for adjudicating Stage 2 applications are managed without reference to their local pensions committee, instead periodic summaries of cases are reported to committee to facilitate oversight.

Proposed alternative arrangements
The Committee are asked to delegate the determination of arrangements for adjudication of AADP Stage 2 applications to the Director of Finance & ICT.

The Director of Finance & ICT would be responsible for ensuring that each AADP Stage 2 application would be adjudicated by an appropriately qualified person from the following options:

- Director of Legal Services, DCC
- Assistant Director of Legal Services, DCC (except where the same officer has already adjudicated the case at AADP Stage 1)
- A suitably qualified adjudicator from a different LGPS employer (except where the same person has already adjudicated the case at AADP Stage 1)
- A senior officer from a different LGPS Fund
- An external specialist lawyer

This flexibility to appoint a suitable adjudicator based on the type of application would ensure that disputes and disagreements referred to the administering authority at AADP Stage 2 would continue to be properly considered, with the required level of impartiality, and detailed explanation of decisions. It would also support the provision of decisions to applicants within the two months' timeframe set out in the regulations.

Committee has previously decided to retain the consideration of Stage 2 adjudications in order to provide members with reassurance about the robustness of the process. The alternative arrangements set out above will be equally robust, whilst providing access to specialist expertise and more timely decisions, and they are supported by the Pension Board. The continuing provision of an annual summary report of all AADP cases will enable the Committee to retain oversight of the AADP process.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background papers

Papers held by the Pension Fund;

5. Appendices

5.1 Appendix 1 – Implications.

5.2 Appendix 2 - Summary of survey relating to six other administering authorities and their approach to adjudicating AADP Stage 2 appeals.

6. Recommendation

That the Committee:

Approves the delegation of arrangements for the adjudication of AADP Stage 2 applications to the Director of Finance & ICT.

7. Reason for recommendation

The analysis set out in this report identifies the benefits of delegating arrangements for the adjudication of AADP Stage 2 applications to the Director of Finance & ICT.

Peter Handford

Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 Delegating the arrangements for adjudicating AADP Stage 2 applications will reduce the likelihood of determinations being provided to applications beyond the 2 months deadline set out in LGPS 2013.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Summary of survey relating to six other Administering Authorities' approach to adjudicating AADP Stage 2 appeals

Fund	Stage 2 appeals against your host authority	Stage 2 appeals against other scheme employers	Stage 2 appeals against your Fund	Employer recharges for Stage 2 appeals	Reporting to Committee
Cheshire	Host authority legal dept	Host authority legal dept	Host authority legal dept	No recharges	Included in Annual Report (plus quarterly report to Board)
Leicestershire	Host authority legal dept	Host authority legal dept	External adjudication (usually a neighbouring fund)	No recharges	Annual summary report to Committee (plus quarterly report to Local Pension Board numbers only)
Nottinghamshire	Senior Fund officer supported by external legal firm	Senior Fund officer supported by external legal firm	Senior Fund officer supported by external legal firm	Reserves the right to charge additional admin costs to employer if appropriate	Summary included in annual performance report (numbers only)
Staffordshire	Host authority legal dept (or where required, specialist lawyer)	Host authority legal dept (or where required, specialist lawyer)	Host authority legal dept (or where required, specialist lawyer)	No recharges	Included in Annual Report (numbers only)
West Midlands	Fund officer, plus specialist lawyer if required	Fund officer, plus specialist lawyer if required	Fund officer, plus specialist lawyer if required	No recharges	Part of quarterly administration report
Worcestershire	Fund officer	Fund officer	Council Monitoring Officer or other LGPS Fund	No recharges	Included in rolling Administration Business Plan

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

21 July 2021

Report of the Director of Finance & ICT

Local Government Pension Scheme Investment Pooling

1. Purpose of the Report

To update the Committee on the Fund's participation in the LGPS Central Pool (the Pool), the products launched by the Pool's pooling company, LGPS Central Limited (LGPSC/the company), and the plan for the transition of Derbyshire Pension Fund (the Fund) assets into LGPSC and collaboratively procured products.

2. Information and Analysis

Legislative Background

The Local Government Pension Scheme (LGPS) is one of the largest funded defined benefit schemes in the world, with over 16,300 employers, over 6.2 million members and with combined assets of around £276bn at 31st March 2020. The LGPS is managed by 87 local administering authorities who historically maintained separate arrangements for the management of scheme assets, overseen by their respective pension committees.

In the wake of Lord Hutton's 2011 report on public sector pensions, the Government issued a 'Call for evidence on the future structure of the Local Government Pension Scheme' in June 2013, followed by a consultation in May 2014: 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies'. The Government subsequently issued its criteria for investment pooling in November 2015: 'Government Pension Scheme: Investment Reform Criteria and Guidance' which set out four headline criteria:

- Asset pool(s) that achieve the benefits of scale (assets of c.£25bn)
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity to invest in infrastructure

Administering authorities were asked to submit their initial pooling proposals to the Government in February 2016, with refined and completed submissions to be submitted by mid-July 2016, and a target implementation date of 1 April 2018.

Alongside the pooling criteria, the Government published draft ‘Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016’ (2016 Investment Regulations) which included powers for the Secretary of State to intervene if an administering authority did not formulate an investment strategy in accordance with guidance issued by the Secretary of State. The approach of authorities to pooling investments, including the use of collective vehicles and shared services, was included within the guidance, making it clear that investment pooling was regarded by the Government as mandatory. The final 2016 Investment Regulations came into effect in November 2016.

In early 2019, the Ministry for Housing, Communities and Local Government issued a consultation on proposed updated asset pooling guidance. The guidance included an expectation that existing assets should be transitioned into the pool as quickly and cost effectively as possible, whilst noting that pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. This may include life insurance contracts (life funds) accessed by pool members for the purpose of passive investment and some infrastructure investments. The proposed guidance also noted that pool members may also retain the management of exiting direct property assets where these may be more effectively managed by pool members. The Fund submitted a response to the consultation which closed at the end of March 2019; the government’s response to the consultation is still awaited.

LGPS Central Pool

In February 2017, it was agreed that Derbyshire County Council (the Council) would enter into an Inter-Authority agreement between Cheshire West and Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the 2016 Investment Regulations; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972.

LGPS Central Ltd has been established to manage investments on behalf of the pool of the eight Local Government Pension Scheme (LGPS) funds (collectively known as the Partner Funds) across the Midlands administered by the authorities listed above. The Company received authorisation from the Financial Conduct Authority in January 2018 and launched its first products in April 2018.

The company has, to date, launched the following products:

- April 2018: UK Passive Equity, Global Ex-UK Passive Equity, & Global Equity Dividend Growth Factor Funds
- January 2019: Private Equity 2018 Co-Investment Fund
- January 2019: Private Equity 2018 Primary Fund
- March 2019: Global Equity Active Multi-Manager Fund
- July 2019: Emerging Markets Equity Active Multi-Manager Fund
- October 2019: All World Equity Climate Multi Factor Fund
- March: 2020 Global Active Investment Grade Corporate Bond Multi-Manager Fund
- December 2020: Global Active Emerging Market Bond Multi-Manager Fund
- January 2021: Global Multi-Factor Fund
- April 2021: Global Active Multi-Asset Credit Multi-Manager Fund
- April 2021: Infrastructure Fund
- May 2021: Private Debt Fund

The following products are forecast to be launched during 2021:

- Private Equity Fund
- Targeted Return Fund
- Sustainable Equity Fund
- Property Fund

Asset Transition
The Fund currently has approximately £580m invested in LGPSC products via the Emerging Market Equity Multi-Manager Fund and the Corporate Bond Multi-Manager Fund, representing approximately 10% of total Fund assets under management (AUM). A further 38% of AUM is currently invested in other collaboratively procured vehicles/life policies, with around 4% invested in direct property and around 9% invested in legacy alternative illiquid investment vehicles in unwind, and almost 6% held in cash.

Due diligence is currently being undertaken on the LGPSC Climate Multi Factor Fund, the Private Debt Fund, and the Infrastructure Fund and will be undertaken on the Sustainable Equity Fund in due course.

Based on the Fund’s current asset allocation, it is expected that by 2025, around 80% of the Fund’s assets will be invested in either LGPSC products or in other collaboratively procured vehicles/life policies, with the balance made up of investments in direct property, remaining legacy alternative illiquid assets in unwind, renewable infrastructure and cash.

The forecast transition plan is contingent on the Fund's future asset allocation, and satisfactory due diligence on the relevant products.

Company Presentation
The Chief Executive Officer and Director of Responsible Investment & Engagement of LGPS Central Ltd are attending Committee today; the company's presentation is attached at Appendix 2.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications.

5.2 Append 2 – LGPS Central Limited Presentation

6. Recommendation

That Members note the contents of the report.

7. Reason for recommendation

One of the roles of Committee is to oversee the Pension Fund's involvement in investment pooling. The receipt of regular update reports enables Committee to fulfil this role.

Peter Handford
Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 The Fund is currently expected to generate total cost savings of £38m from investment pooling between 2018-19 and 2033-34, including savings generated by investing in LGPSC products and savings generated by the Fund's involvement in collaborative purchasing arrangements with other Partner Funds within the LGPS Central Pool.

Whilst cost savings are an important consideration for investment pooling, net investment performance (performance less costs) will ultimately determine the financial success of pooling.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

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Derbyshire Pension Fund

LGPS CENTRAL LIMITED UPDATE ON POOLING

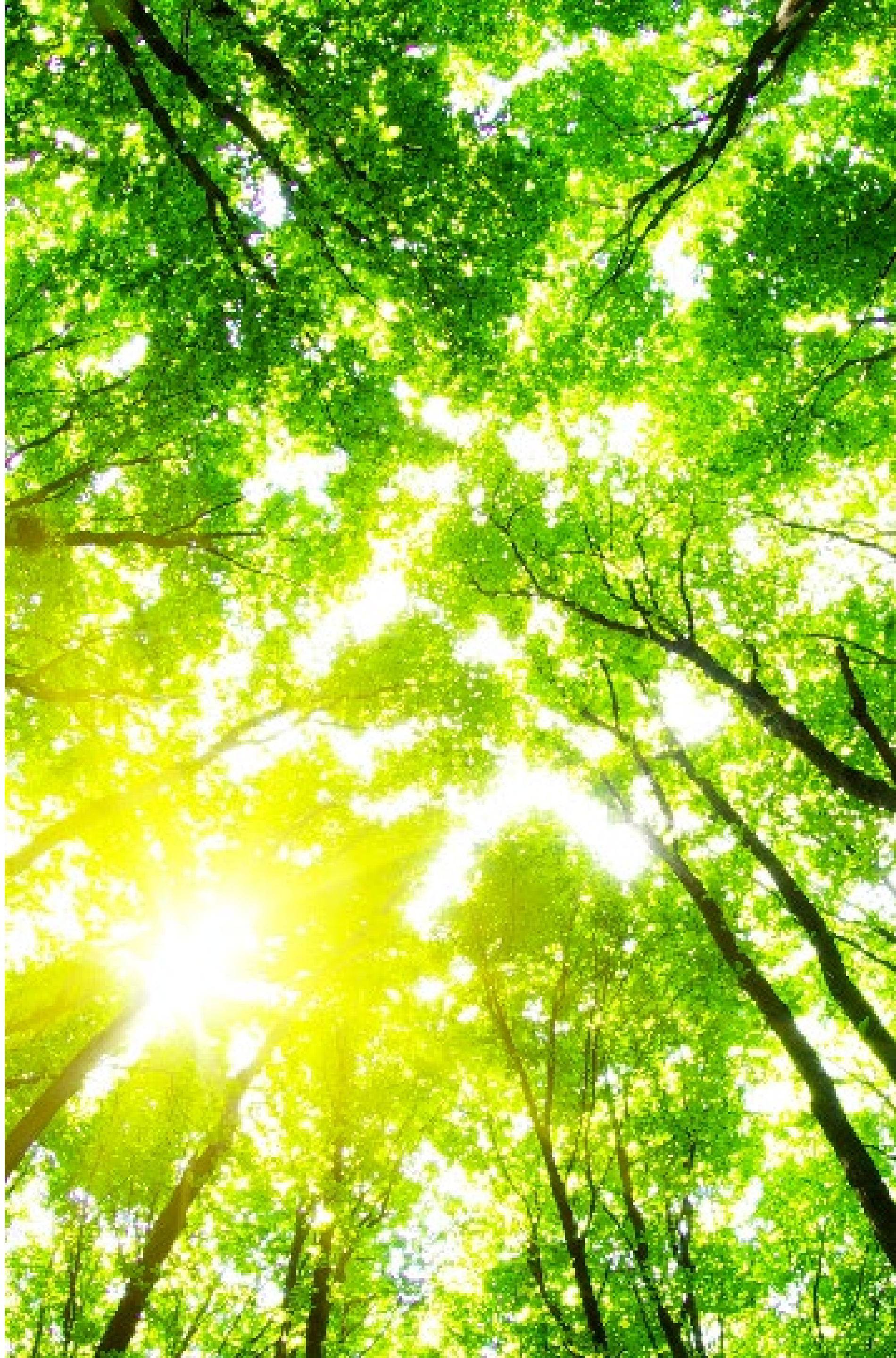
PRESENTED BY

MIKE WESTON
CEO

PATRICK O'HARA
DIRECTOR OF RESPONSIBLE INVESTMENT & ENGAGEMENT

VALBORG LIE
STEWARDSHIP MANAGER

21st July 2021

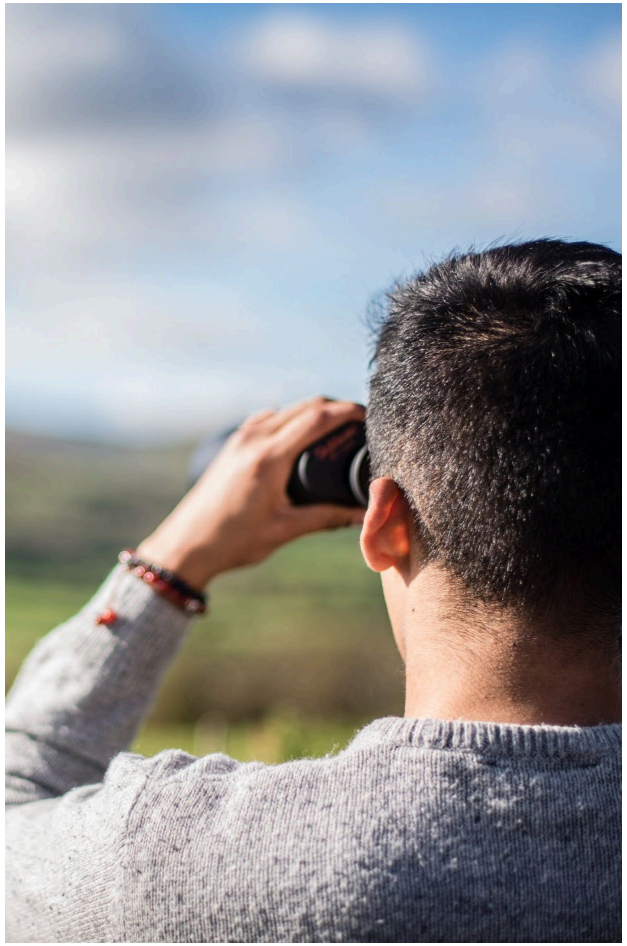


Agenda

LGPS Central Limited

AREAS FOR DISCUSSION

- LGPS Central Update
- Looking forward
- Responsible Investment and Engagement
- Summary



LGPS Central Update

Mike Weston

LGPS Central and DPF

LGPS Central Limited

DPF'S POOLING COMPANY: LGPS CENTRAL

- Working together with DPF and Partner Funds to provide **access** to a **wide range of asset classes tailored** to meet the **needs of DPF**
- Using **combined purchasing power** enables LGPSC to negotiate discounts to investment manager fees on behalf of DPF
- Ability to **reduce any governance burden** on DPF with LGPS Central taking on vital role of manager monitoring
- **Product Development** a priority with a further 4 funds to be launched over 2021:
  - Private Equity
  - Targeted Return
  - Sustainable Equity
  - Property

- **1/4** actively managed funds **ahead of target** since inception
  - 5/10 individual managers ahead of target
- **3/4** funds **ahead of benchmark** since inception
  - 8/10 individual managers ahead of benchmark
- **c. £23.6bn** assets under stewardship

- The team continues to grow with **dedicated staff** to meet the needs of DPF
- Working in **partnership with our shareholders** to drive the success of LGPS Central

Source: LGPS Central, all figures as at 31 May 2021. Performance of MAC fund excluded due to infancy (fund launched on 15 April 2021)

Recap: DPF Investment Summary

LGPS Central Limited

ASSETS UNDER MANAGEMENT 31 MAY 2021

Asset Class	Fund	DPF's Assets	Total Fund AUM	DPF % of Fund
Active Emerging Market Equity	LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund	£143m	£899m	16%
Active Global Fixed Income	LGPS Central Limited Investment Grade Corporate Bond Multi Manager Fund	£376m	£1,603m	23%

PERFORMANCE SUMMARY: INCEPTION TO 31 MAY 2021

Fund	Inception of Fund	Performance %	Target %	Relative vs. Target %	Benchmark %	Relative vs. Benchmark %
LGPSC Emerging Markets Equity Active MM Fund	01/07/2019	8.87	10.88	-2.01	8.88	-0.01
LGPSC Global Active IG Corporate Bond MM Fund	22/04/2020	13.61	13.05	0.56	12.25	1.36

Over c. £500m assets invested with LGPSC

Working closely with DPF for on-going development of Funds

In active dialogue around Climate Factor Fund and Sustainable Equities

Source: LGPS Central, all figures as at 31 May 2021.

LGPS Central: Timeline

LGPS Central Limited

MOVING OUT OF START UP TOWARDS MATURITY

Pre-2018
Phase 1: Establishment

2018 - 2020
Phase 2: Initial Assets Transitioned and Funds Launched

2020 - 2022
Phase 3: Additional Transitions and Launch of "Niche" products

2023 onwards
Phase 4: Business as Usual

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LGPS Central: Achievements to Date

LGPS Central Limited

DELIVERING ON THE SIX PRIORITIES IN THE 2021/22 BUSINESS PLAN

1. Partner Fund Relationships

- Work closely with DPF and Partner Funds to develop and monitor LGPSC products
- Incorporate Partner Fund feedback into all aspects of our work

2. RI Focus

- RI Integrated Status established and maintained for all LGPSC products
- Additional services provided to Partner Funds e.g. Climate Risk Reports

3. Management of Existing Assets

- Ongoing monitoring of external managers
- Strong performance delivered to date across LGPSC funds
- Adapting and developing existing products to ensure remain suitable to meet investor

LGPS Central: Achievements to Date

LGPS Central Limited

DELIVERING ON THE SIX PRIORITIES IN THE 2021/22 BUSINESS PLAN

- Additional three funds launched over 2021 to date
- Further four funds to be launched over course of the business year
- DPF invested additional £251m during 2021

4. Transitioning New Assets

- Recruitment efforts focussed on strengthening both the Operations and Responsible Investment Teams
- Enhancing the internal organisational structure

5. The "One Central" Team

- Unqualified AAF report for full 12 months of 2020 (as was the report for the first three months of 2021)
- Only Pool Company to have completed AAF Type 2 report for its Clients

6. Operational Resilience

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LGPS Central Limited

Looking Forward

What's Next For LGPS Central?

LGPS Central Limited

MULTIPLE PRODUCT DEVELOPMENT

Private Debt	First Close completed in June 2021, with further two closes expected over the course of 2021
Private Equity	Targeting end July / early August for first close
Sustainable Equity	Procurement is underway to appoint external managers to run our upcoming c.£1bn Global Sustainable Equities Fund. The Fund is expected to be launched over H2 2021.
Targeted Return	Procurement is underway to appoint external managers run our upcoming c.£700m Targeted Return Fund. The Fund is expected to be launched in early 2022.
Property	Work continues with the Partner Funds to design the product with launch expected for the latter half of H2 2021.

DPF play an active role in development of Sustainable Equity Fund

Next Steps LGPS Central

LGPS Central Limited

A CLEAR ORGANISATIONAL FOCUS LOOKING FORWARD

Our Funds

- Transitioning away from multiple new product launches to continuing to **deliver efficient portfolio management and investment performance**

Our Philosophy

- Achieving our fiduciary objectives without compromising societal responsibilities – focussing on engagement rather than divestment
- Maintain **100% RI Integrated Status** across all our investment products and extending our support for **Net Zero alignments, off-setting and carbon pricing**

Our People

- Continued **investment in our people** to ensure we have **the right people with the right capabilities in the right roles.**
- Strengthening the **Responsible Investment & Engagement team** to support increased Partner Fund needs – **one of the main advantages of pooling**

LGPS Central Limited

Responsible Investment and Engagement

Patrick O'Hara

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The LGPS and ESG

LGPS Central Limited

LGPS CENTRAL IS AN INTEGRAL PART OF THE BROAD UK ESG EFFORT

- Consideration of Environmental, Social and Governance issues is not new to LGPS funds, particularly DPF.
- DPF is also a member of the Local Authority Pension Fund Forum (LAPFF), formed in 1990, the leading collaborative shareholder's engagement group.

Local Authority Pension Fund Forum

Engagements include:

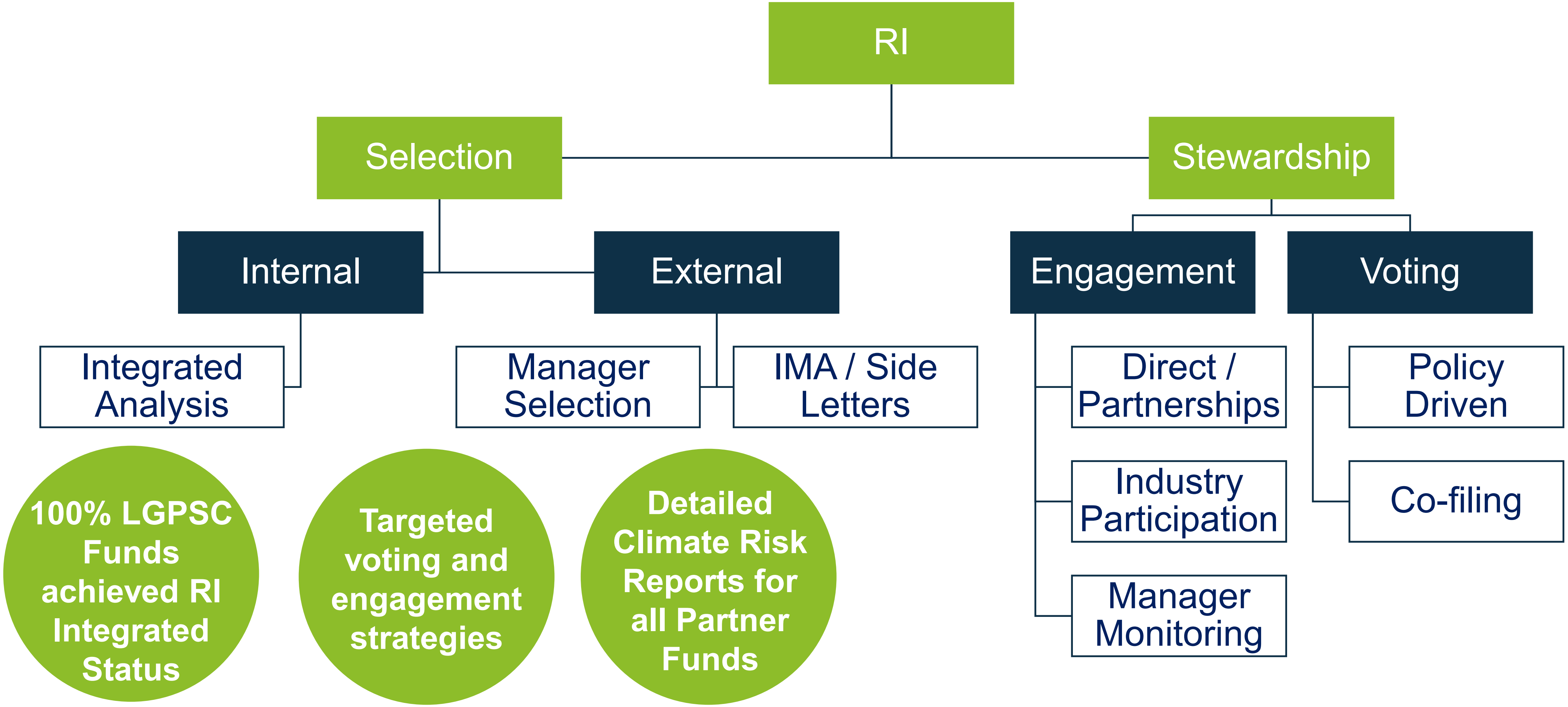
- Climate change
- Plastics
- Tax
- Technology

- LGPS Central Pool Member of LAPFF (along with wide ranging list of partnerships)
- Significant experience with LGPS Central RI&E team in engaging with companies on variety of ESG issues
- Provide additional support to DPF on RI&E issues, including provision of climate risk reports

LGPS Central and RI&E

LGPS Central Limited

MULTIPLE INTEGRATION ROUTES TO TAKE RI&E INTO ACCOUNT



Does Engagement Work

LGPS Central Limited

RESPONSIBLE INVESTORS TAKING THE LEAD

Engagement works but it can be a long game

As an owner, you have a voice

Corporations need responsible long-term investors

- Disclosure is Key
- Voting and Engagement needs to be joined up
- Share the heavy lifting
- Collaboration increases impact
- Small Investors can be influential

GLENCORE

TotalEnergies

ExxonMobil

BARCLAYS

Chevron

RioTinto

LGPS Central and RI&E

LGPS Central Limited

LGPS CENTRAL'S PARTNERSHIPS

PRI Principles for Responsible Investment

IIGCC The Institutional Investors Group on Climate Change

Local Authority Pension Fund Forum

FRC

Transition Pathway Initiative

Climate Action 100+ Global Investors Driving Business Transition

ShareAction»

BVCA British Private Equity & Venture Capital Association

THE INVESTOR FORUM

30% Club GROWTH THROUGH DIVERSITY

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Summary

Mike Weston

Summary

PARTNERSHIP IS THE FOUNDATION FOR EVERYTHING WE DO

Page 162

Strong relationship with DPF

Derbyshire Pension Fund

Continue to develop LGPS Central's Products to meet DPF's needs

RI integration with targeted engagement throughout the life of LGPSC's products

DISCLAIMER:

LGPS Central Disclaimer

IMPORTANT INFORMATION

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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of **5 July 2021**

This document is intended for **PROFESSIONAL CLIENTS** only.

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LGPS Central Limited

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“One Central team, working in partnership to invest with purpose and deliver superior returns”