

# Public Document Pack

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07 November 2023

## **Pension Advisory Board**

Members are hereby notified that the Chairman of the Pension Advisory Board has agreed that the following supplementary item(s) be added to the agenda for the meeting to be held at **9.30 am on Monday, 13 November 2023** at County Hall, Chichester PO19 1RQ.

**Tony Kershaw**  
Director of Law and Assurance

### **Supplementary Agenda**

#### **7(a) Updated report: Administration Procedures and Performance (Pages 3 - 20)**

Report by the Director of Finance and Support Services.

The Board is asked to consider the updated Administration report from the 01 November 2023 meeting of the Pensions Committee.

#### **11(a) Updated report: Investment Performance**

Report by the Director of Finance and Support Services.

The Board is asked to consider the updated report, Financial Information Report which went to the 01 November 2023 meeting of the Pensions Committee.

**To all members of the Pension Advisory Board**

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## **Report to Pensions Committee**

**1 November 2023**

### **Pension Administration**

#### **Report by Director of Finance and Support Services**

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##### **Summary**

The Pension Administration service has been provided by Hampshire County Council since 4 March 2019. There were 88,210 members in the Scheme on 30 September 2023 and 217 employers actively contributing into the Scheme. This is an increase of 1,003 members and a net decrease of four employers since 30 June 2023.

99.41% of active benefit statements and 99.98% of deferred benefit statements were produced by the statutory deadline (31 August 2023) and all required Pension Savings Statements were published by the deadline (6 October 2023). Other administration activity is set out in Appendix A. The following are highlighted:

- Over the quarter ending 30 September 2023, 1,642 casework items were completed by the team and a total of 8,060 casework items completed by the administrators over the previous 12 months. All casework items were completed with the service level timescales. On 30 September 2023, 844 casework items were in progress with the team, employers, members or other third parties.
- On 30 September 2023, 43% of members had set up an account on the Member Portal which allows them to update personal details, access to Annual Benefit Statements, run retirement estimates or view their payslips online. On the same date, 163 (75%) of employers were registered onto Employer Hub. The Hub allows employers to view pension records for active employees, inform the team about changes in membership, notify of leavers / starters and run retirement estimates.

In terms of employer management, the following are highlighted:

- The Funding Strategy Statement has been updated to reflect the guarantee from the Department for Education for outsourced contracts from academy trusts as set out within the policy paper published by the Department in May 2023. This facilitates the Pension Fund offering pass-through as a risk sharing arrangement for contractors joining the Scheme following an Academy outsourcing.
- The administrative team have reviewed employer performance during the annual return process for timeliness, financial and data quality. Whilst eight employers improved their data quality rating from a red in 2022 to either an amber or green this year, the general pattern is a reduction in data quality. The team are undertaking targeted engagement, training, and mid-year validations with employers to support future improvements.

In terms of project work, the following are highlighted:

- On 1 October, changes to the Regulations to facilitate the McCloud remedy became effective. Currently 7,340 members have been identified as being in scope

for remedy. Guidance is expected from Government on prioritisation for reviewing the cases so that Funds are broadly working to the same timescales. The Fund can process retirements and estimates with the remedy underpin.

- Hymans Robertson has reviewed arrangements with the Fund’s Additional Voluntary Contribution (AVC) provider Legal & General (L&G). Overall, Hymans believes that the AVC arrangements provided by L&G give good value for members and there are no pressing actions needed to improve value for members. The 2023 value for money summary will be published on the Pension Fund’s website.

**Recommendation:**

1. That the Pensions Committee approves the updated Funding Strategy Statement at Appendix B
2. That the Pensions Committee notes the report.

**1 Background and context**

- 1.1 Hampshire County Council provides the Pension Administration Service for West Sussex County Council, and it works closely with the West Sussex Pensions Team.
- 1.2 The Pensions Committee has a key objective within its Business Plan to continue improvements in relation to the pension administration service provided to all stakeholders and deliver a high-quality administration service.

**2 Membership**

- 2.1 On 30 September 2023, the Scheme had 88,210 members as analysed below. Membership and movements from 30 June 2023 have been shown as a comparison.

<b>Member Type</b>	<b>30 June 2023</b>	<b>30 Sept 2023</b>	<b>Movement No.</b>	<b>Movement %</b>
<b>Active</b>	25,870	26,200	+330	+1%
<b>Deferred</b>	37,153	37,499	+346	+1%
<b>Pensioner</b>	24,217	24,511	+294	+1%
<b>Total</b>	<b>87,240</b>	<b>88,210</b>	<b>+970</b>	<b>+1%</b>

- 2.2 In addition, there are 6,047 records classified as ‘preserved refunds’ (5,921 on 30 June 2023). Preserved refunds relate to those leaving the scheme before reaching a two year ‘vesting period’ threshold and therefore do not qualify for deferred benefits. A project is being scoped to provide options to those with preserved refunds in the Scheme.

**3 Administration Activity**

- 3.1 Appendix A sets out Local Government Pension Scheme (LGPS) contributions received April to August 2023, casework performance, complaints, and portal access during the period to 30 September 2023.

### Publication of Annual Benefit Statements

- 3.2 Notification emails to active members informing them that their Annual Benefit Statements were available were sent throughout August. By the statutory deadline of 31 August, 99.41% of statements (25,776) had been produced. The number of outstanding statements at the deadline was 154. This has since been reduced to 117 by the end of September and work is ongoing to investigate on a case-by-case basis with the aim of reducing the number by the end of the year.
- 3.3 By the deadline of 31 August 36,822 deferred annual benefit statements, reflecting 99.98% of the statements required, were published on the Member Portal. The outstanding six statements are being investigated on a case-by-case basis.

### Publication of Pension Saving Statements

- 3.4 The team are in the process of finalising the annual allowance position for members who have previously exceeded their annual allowance and for those that have been identified as part of the annual benefit statement process as requiring further investigation. All required Pension Savings Statements were published by the deadline of 6 October.

## 4 Employer Management

### Employer Movements

- 4.1 On 30 September 2023, the Scheme had 325 employers.

Employer Status	30 June 23	30 Sept 23
Active	221	217
No active members	103	108
<b>Total</b>	<b>324</b>	<b>325</b>

The above excludes 21 employers who are in the process of being admitted. These include eleven admitted bodies and ten academy conversions.

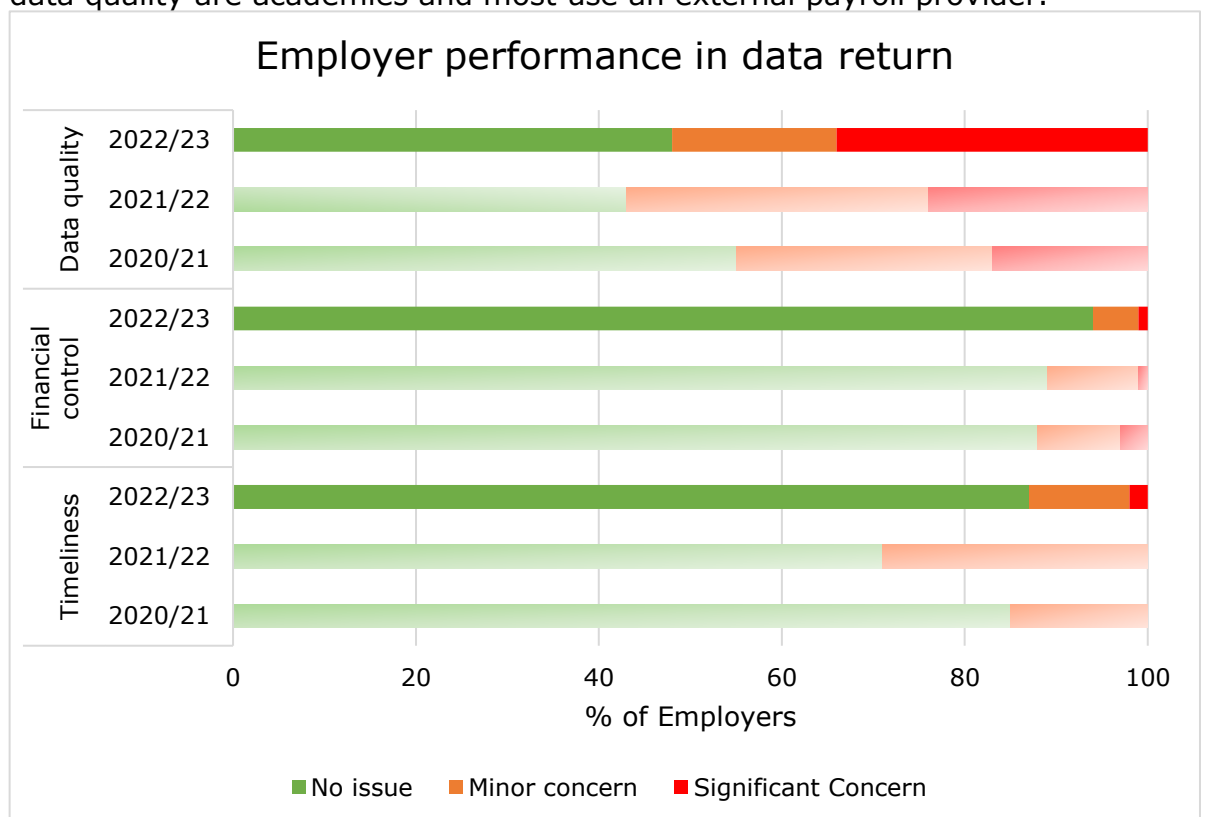
### Funding Strategy Statement

- 4.2 In May 2023 the Department for Education (DfE) published its [Local Government Pension Scheme Guarantee for Academy Trusts: Pensions Policy for Outsourcing Arrangements](#) policy paper.
- 4.3 The policy provides pension liability cover from the DfE where academy trust employees, who are eligible to be members of the LGPS, are transferred under Transfer of Undertakings Protection of Employment (TUPE) Regulations 2006 from the public sector to the contracting employer. The outsourced contract is admitted to the fund on a pass-through arrangement.
- 4.4 A pass-through contract allows LGPS liabilities to remain with the academy trust, for those employees who transferred to the outsourcing provider. Therefore, their LGPS liabilities are automatically covered within the [DfE LGPS Guarantee for Academy Trusts](#) which has been in place since 2013.

- 4.5 Following the publication of the policy paper officers, in consultation with the Actuary, have reviewed and updated the [Funding Strategy Statement](#) Appendix 1B – Funding Strategy for Academies and Free Schools to ensure that the approach to academy trust outsourcing is clear and in line with the DfE policy. The updated Funding Strategy Statement extract shows changes highlighted (Appendix B).

**End of Year Employer Performance**

- 4.6 The team has received information from employers with active members participating in the Scheme between 1 April 2022 and 31 March 2023 to allow it to reconcile the data, update member records and produce Annual Benefit Statements by the Statutory deadline of 31 August 2023. The data provided by employers is also used by the team to produce Pension Saving Statements for impacted members (required by the 6 October 2023 deadline).
- 4.7 This year there were 216 active scheme employers on 31 March 2023 and for whom an annual return was due by 30 April 2023 (201 on 31 March 2022).
- 4.8 As in previous years, the administrative team has reviewed employer performance during the annual return process for timeliness (whether the return was received by the deadline of 30 April, by 31 May, or later), financial control (no, minor or major reconciliation issues) and data quality (no, minor or major reconciliation issues). The information in the chart below will be added to the Annual Report. Overall performance moved more towards green or red ratings, away from amber. Encouragingly there has been an increase in employers rated green across all criteria (92 employers or 42%) but 28 employers moved from a previously green or amber rating for data quality to a red rating this year. In total 23 employers (11%) have received red data quality ratings in each of the past three years. Most of the employers red for data quality are academies and most use an external payroll provider.



4.9 The following action will be taken to address the issues raised at year end:

- A letter will be sent to all scheme employers who rated red in one or more areas with a request that they review their processes to ensure improvement in future years.
- Meetings will be arranged with those employers who have received a red data quality rating over three consecutive years to discuss action to be taken to address the ongoing issue.
- The administration team will engage with external payroll providers to support their understanding of the requirements of the returns and throughout the year.
- Communications will be issued to all employers through the regular newsletter setting out the importance of keeping the administration up to date throughout the year.
- Employer training content will be reviewed to ensure key issues are highlighted for checking/completion before submission.

## **5 Project Work: McCloud**

5.1 Reforms made in 2015 to the judicial and firefighters' pension schemes were found by the Court of Appeal in 2018 to have been unlawful based on age discrimination. This ruling, known as the McCloud judgment, impacted all main public service pension schemes, including the LGPS. As a result, every member active in a scheme before the introduction of the career average revalued earnings scheme will be eligible for the higher of either their final salary benefits, or the Care benefits accrued since these were introduced.

5.2 This is a significant administration task.

5.3 On 8 September 2023 the Department for Levelling Up, Housing and Communities (DLUHC) laid The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 and published its response to the most recent McCloud consultation. The regulations implement the McCloud remedy and change the existing underpin to ensure it works effectively and consistently for qualifying members. The regulations came into force on 1 October 2023 and apply retrospectively to 1 April 2014.

5.4 To date, 209 of the expected 214 returns from employers (which amounts to 170,503 lines of data) have been received. Initial checks have been completed on 208 of these.

5.5 Currently 7,340 members have been identified as being in scope for Remedy. This includes 133 deceased members and 263 members who have transferred out of the Fund. The remaining members are all current members of the Fund.

5.6 Guidance is expected from Government on prioritisation for reviewing the cases so that Funds are broadly working to the same timescales.

5.7 The anticipated software update was delayed and therefore the team was not able to carry out as much preparation for the regulations as hoped. However, the team continues to collect information from employers on an individual

member basis (e.g. on the leaver or estimate form) and the Fund will therefore be able to process retirements and estimates with the remedy underpin.

- 5.8 The team will continue to load data onto records so that it can produce service information with the 2024 annual benefit statements for members to start checking that the new data is accurate. It is considered that this will put the Pension Fund in a strong position to comply with the production of remedial service statements in 2025.

## **6 Project Work: Dashboard**











- 6.1 The Government led "Pension Dashboard" project is intended to allow individuals to go to a single website and receive details of all the pensions they hold across UK pension providers.
- 6.2 The original connection deadline for Public Sector schemes was 31 October 2024, but in March 2023, the Department for Work and Pensions announced delays and a reset of the programme as part of refreshing its delivery plan for a new connection deadline for all schemes of 31 October 2026.
- 6.3 Additional guidance is expected, which should set an expectation of when public sector schemes should connect, rather than waiting until the final deadline. The 'dashboard available point' (DAP) is to be determined but will be communicated 6 months in advance to allow schemes to prepare.

## **7 Project Work: AVC Review**

### AVC Provider Review 2023 Legal & General

- 7.1 Under the Regulations, an active member can pay additional voluntary contributions ("AVCs") or to contribute to shared cost additional voluntary contribution arrangements ("SCAVCs") in respect of an employment. These arrangements must be established by the Administering Authority with a body approved for the purposes under the Finance Act 2004(1) ("the AVC provider").
- 7.2 The West Sussex Pension Fund moved its AVC provider from Standard Life and Utmost (Equitable Life) in March 2021 to Legal & General (L&G), following a market review. Some AVC investments were retained with Standard Life because the potential costs of moving funds could outweigh the benefits of moving to L&G for members nearing retirement. West Sussex County Council was the first Administering authority to appoint L&G as its AVC provider. Since 2021 L&G has been piloting the development of an AVC proposition more specifically for the LGPS market. One other local authority recently completed a transfer of its AVCs to L&G and work is in progress with another.
- 7.3 Hymans Robertson has undertaken an annual review of the arrangements with L&G and consider that it remains a competitive and effective provider.
- 7.4 Hyman's value for money summary is set out below, with a comparison to the 2022 assessment. The value for money summary considers charges along with the quality and suitability of the AVC arrangements. The weightings for each aspect reflect Hymans' consideration of the likely contribution to good outcomes for members. Overall, Hymans believe that the AVC arrangements provided by L&G give Good Value for Members and there are no pressing actions needed to improve Value for Members. The 2023 value for money summary will be published on the Pension Fund's website.



<b>Service</b>	<b>Weight</b>	<b>2022 Rating</b>	<b>2023 Rating</b>	<b>Comment</b>
Costs and charges	30	 <b>Excellent</b>	 <b>Good</b>	Charges are deducted from members' funds pay for L&G's investment, administration, and communication services. Members also bear the funds' transaction costs, which are implicit in the funds' unit prices.  Initially members saw a reduction in charges, typically in the region of 0.30% p.a. when AVCs were moved from Standard Life to L&G. The current charges of 0.48% to 0.57% are competitive in comparison with other LGPS AVC schemes.
Investment	40	 <b>Good</b>	 <b>Good</b>	Members can invest in the L&G Lifestyle Option (the default fund designed for LGPS AVCs, targeting members taking their AVCs as a cash lump sum when they retire) or in one or more of the twelve available L&G Self Select Funds (which are mostly passively managed and cover the main asset classes (except property)). Several ESG and climate change aware funds are used in both the growth and consolidation phase of the lifestyle option and self-select fund range.
Admin	15	 <b>Average</b>	 <b>Good</b>	L&G provide satisfactory administration, which has received positive feedback.
Comms	10	 <b>Good</b>	 <b>Good</b>	L&G provide investment guides specific to the Fund's AVC arrangements and all members can manage their AVCs on-line.
Governance	5	 <b>Good</b>	 <b>Good</b>	An annual "health check" of the AVC arrangements is in keeping with TPR guidance.

- 7.5 Whilst Hymans believes an appropriate number of investment choices for most members are provided by the Pension Fund, it has recommended that the Pension Fund considers making changes to the self-select fund range next year as part of a more detailed review of the AVC arrangements, to take advantage

of any enhancements (such as ESG and climate change factors, or illiquid assets/private markets).

### **Standard Life**

- 7.6 In addition to the arrangements with L&G, the Pension Fund also maintains Standard Life as an AVC Provider for 4 members. These members were given the opportunity to stay with Standard Life as they were expected to retire by 2023, because the potential costs of moving funds could outweigh the benefits of moving to L&G for a limited period. Standard Life Assurance Limited and Standard Pension Funds Limited are now planning to transfer all their policies to Pheonix Life Limited in October 2023, subject to approval by the High Court. Acknowledging that there is benefit in closing the arrangement with Standard Life it is proposed that the Pension Fund writes to the members to advise that the Funds will close. Legal advice will be sought on the reasonable timescales for this.

## **8 Application of Administering Authority Discretions**

### **Discretion Decisions**

- 8.1 The rules of the Local Government Pension Scheme (LGPS) are set out in the LGPS and associated statutory Regulations. However, there are some provisions which are discretionary and West Sussex as Administering Authority can choose how, or if, it applies certain provisions of the Scheme.
- 8.2 No discretions have been referred for an Administering Authority decision during the latest quarter.

## **9 Breach Reporting**

- 9.1 Since the last Pensions Committee meeting, there have been no data breaches notified.

## **10 Other options considered (and reasons for not proposing)**

N/A

## **11 Consultation, engagement, and advice**

N/A

## **12 Finance**

N/A

## **13 Risk implications and mitigations**

Risks associated with this report are set out in the risk register for the Pension Fund which is part of the Business Plan at agenda item 6.

## **14 Policy alignment and compliance**

The Pensions Committee has an overarching objective to build on the improvement journey in relation to the administration and deliver a high-quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due, and payments are made to the

right people at the right time, clear communication and robust accounting and reports.

Taryn Eves

**Director of Finance and Support Services**

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**Appendices**

Appendix A - Administration Activity

Appendix B – Updated appendix 1B of the Funding Strategy Statement

**Background papers**

None

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## Administration Activity

### Key Performance Indicators (KPIs)

The analysis below shows performance of the administration team in relation to key processes over the past 12 months. The bold line shows the KPI target. The pattern of cases over the year is shown on the right-hand side.

This casework does not include periodic tasks (such as the triennial valuation, publication of the Annual Benefit Statements, End of Year processes or notification of changes to Regulations). It also does not include work in progress, which is shown on the next page.

No. Cases completed by day count	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	Quarter end Sept 23	Quarter end Jun 23	Quarter end Mar 23	Quarter end Dec 22
Active Retirement	280	113	45				<b>438</b>	98	121	104	115
Deferred Retirement	248	255	333				<b>836</b>	194	232	232	178
Estimates	166	519	1,113				<b>1,798</b>	397	474	490	437
Deferred Benefits	97	39	82	109	2,503		<b>2,830</b>	487	761	738	844
Transfers In & Out	37	64	31				<b>132</b>	33	24	46	29
Divorce	39	82	45				<b>166</b>	41	48	55	22
Refunds	75	214	237				<b>526</b>	98	152	125	151
Rejoiners	47	41	99	216			<b>403</b>	102	94	148	59
Interfunds	149	129	154				<b>432</b>	100	104	137	91
Death Benefits	337	79	83				<b>499</b>	92	134	166	107
Grand Total	<b>1,475</b>	<b>1,535</b>	<b>2,222</b>	<b>325</b>	<b>2,503</b>	-	<b>8,060</b>	1,642	2,144	2,241	2,033

## Work in Progress

The administration performance does not reflect work in progress which is with the team, employers, members or other third parties. The analysis below shows casework in progress on 30 Sep 2023 in relation to key processes and compares to the previous quarter.

<b>No. Case in Progress. Day count from receipt</b>	<b>0-5 days</b>	<b>6-10 days</b>	<b>11-15 days</b>	<b>16-20 days</b>	<b>21-30 days</b>	<b>31-40 days</b>	<b>Total 30 Sep 23</b>	<b>Total 30 Jun 23</b>
Active Retirement	8	10	0	0	0	0	<b>18</b>	19
Deferred Retirement	13	19	5	0	0	0	<b>37</b>	39
Estimates	90	166	16	0	2	7	<b>281</b>	312
Deferred Benefits	24	215	31	54	29	0	<b>252</b>	389
Transfers In & Out	1	1	0	0	0	0	<b>2</b>	1
Divorce	8	8	0	1	0	2	<b>19</b>	32
Refunds	0	0	0	0	0	0	<b>0</b>	17
Rejoiners	20	18	17	6	2	0	<b>63</b>	72
Interfunds	16	13	3	1	0	2	<b>35</b>	29
Death Benefits	14	6	3	1	5	7	<b>36</b>	34
<b>Total</b>	<b>194</b>	<b>456</b>	<b>75</b>	<b>63</b>	<b>38</b>	<b>18</b>	<b>844</b>	<b>944</b>
Total 31 Mar 2023							754	

## Portal access

The table shows registrations to the Member Portal (which allows members to view their Annual Benefit Statement, produce retirement estimates and to access and update their personal details). Also included are the number of log ins to the Portal.

	<b>Membership Split 30 Jun 2023</b>	<b>Membership Split 30 Sep 2023</b>	<b>No. Log in 1 Apr to 30 Jun 2023</b>	<b>No. Log in 1 Jul to 30 Sep 2023</b>
Active: Registered	12,633 49%	<b>13,268</b> <b>51%</b>	4,022	<b>8,069</b>
Active: Opt out of online	161 1%	<b>163</b> <b>1%</b>		
Active: No Response	13,076 51%	<b>12,769</b> <b>48%</b>		
Deferred: Registered	12914 35%	<b>13,751</b> <b>37%</b>	3,374	<b>3,723</b>
Deferred: Opt out of online	220 1%	<b>213</b> <b>1%</b>		
Deferred: No Response	24,019 65%	<b>23,549</b> <b>63%</b>		
Pensioner: Registered	10,718 44%	<b>11,214</b> <b>46%</b>	6,942	<b>2,375</b>
Pensioner: Opt out of online	6179 26%	<b>6,181</b> <b>25%</b>		
Pensioner: No Response	7320 30%	<b>7,135</b> <b>29%</b>		
<b>Total: Registered</b>	<b>36,265</b> <b>42%</b>	<b>38,233</b> <b>43%</b>	<b>14,338</b>	<b>14,167</b>
<b>Total: Opt out of online</b>	<b>6,560</b> <b>8%</b>	<b>6,557</b> <b>7%</b>		
<b>Total: No Response</b>	<b>44,415</b> <b>51%</b>	<b>43,453</b> <b>49%</b>		

### Call and email volumes

Month	Dec 22	Jan 22	Feb 22	Mar 22	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Total	10 Month Average
<b>Calls received</b>	314	615	536	655	573	519	587	511	549	477	<b>5,336</b>	533.6
<b>Calls answered</b>	310	590	524	634	561	500	568	503	531	459	<b>5,180</b>	518
<b>Calls abandoned</b>	4	25	12	21	12	19	19	8	18	18	<b>156</b>	16
<b>Average wait time (seconds)</b>	63	140	159	89	63	82	91	58	73	95		93
<b>Emails</b>	336	489	522		544	445	544	623	626	540	<b>6,550</b>	655

### Contribution Monitoring

Regulations state that all Local Government Pension Scheme contributions must be received by the Fund on the 22nd of each month following deduction and must be accompanied by a remittance which breaks down the payment into employer and employee contributions and reconciles to the amount paid.

The analysis below shows performance of employers for the year to date and reflects the payroll month.

Month	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Total Active Employers	218	219	222	222	220
Payment received & validated by statutory deadline	196	216	206	217	210
Total Value of Late Payments (£)	1,258	1,208	-	-	-
Number of Late Remittances	22	3	16	5	10
Total Amount Still overdue (£)	-	-	-	-	-
Number of Late remittances still outstanding	0	0	0	0	2

### Complaints and Compliments

Over the quarter the team received nine compliments and one complaint.



additions shown in bold, italic text, deletions struck through.

## APPENDIX 1B: Funding Strategy for Academies and Free Schools

### Opening Position

All Academies will have an initial opening position which is based on:

- **Liabilities** reflecting the value of benefits built up by the transferring members of staff active in the Fund on the day before conversion. Ex-employees of the school who have deferred or pensioner status will not be included in these liabilities.
- **Assets** allocated from West Sussex County Council's assets in the Fund, using the estimated funding position of WSCC on the day of the conversion. The asset position for WSCC assumes that ex-employees of the school who have deferred or pension status are fully funded. The maximum starting funding level at outset is 100% of the liabilities.

Free schools typically start with no assets and liabilities. Where members do transfer from other employers in the Fund, the opening position will be set consistently to that done for new academies.

For an Academy, the initial contribution rate will be equal to the Academies who are part of the Multi Academy Trust (MAT) pool or, if this is not applicable, that of WSCC. If requested, the Actuary can calculate an individual rate.

For a Free School, the initial contribution rate will be an individual rate calculated by the Fund Actuary.

### Funding Target

The Funding Target used for Academies and Free Schools is the "ongoing funding basis".

For Academies or Free Schools nearing the end of their participation in the Fund, the Fund may use the "cessation basis" as the Funding Target.

### Time horizon & Likelihood

Because Academies and Free Schools are considered long term employers, the Fund will look for a 70% minimum likelihood that the assets held on behalf of the Academy or Free School meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) at the end of a maximum time horizon of 20 years.

### Smoothing

A key principle for Academies and Free Schools is the Fund's approach to keeping contribution rates as stable as possible through "pooling". "Pooling" is a way for some Academies and Free Schools to share experience of membership movements and smoothing out the effects of costly, but relatively rare events, such as ill health retirements or death in service by setting a combined single contribution rate.

Whilst over the longer time periods, it would be expected that the experience for an individual may even out between Academies and that each Academy in the pool will, on average, pay a fair level of contributions it should be noted that Academies who pay "pooled" contributions may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

Due to the long term nature of Academies and Free Schools, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to

increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

## **Additional Costs**

### **Early Retirement**

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a maximum three year period, but this would be by exception.

### **Ill Health Early Retirement**

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is for employers to pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant.

## **Exit and Exit Obligations**

The Fund considers an Academy or Free School to be a long term employer. However it is important to consider arrangements when an Academy leaves the Fund, for whatever reason.

### **Suspension Notice**

If and when an Academy or Free School ceases to have active members contributing to the Fund and the individual employer position is in deficit, the Fund may issue a Suspension Notice - provided it reasonably believes that the employer is likely to have one or more active members contributing to the Fund within a three year period.

Where a Suspension Notice is issued, the Academy or Free School may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Local Authority or Police's individual position. If lifted, the Academy or Free School will either pay their MAT's rate where pooled with their associated MAT or an individual contribution rate calculated by the Fund Actuary.

### **Other circumstances**

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of a Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, the liabilities will be valued on the "cessation basis". The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Academy or Free School may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Academy or Free School meets its exit obligations, they will have no further obligation to the Fund. The Academy will remain in the pooling arrangement even when they have no active members.

## Contractors

Academies should note the impact of setting up new Admission Bodies on their liabilities. It is normal for an Admission Body to be set up in the Fund as a new employer.

***Following the Department for Education Academy Trust Guarantee Policy, the default for Academy contractors to be admitted into the Fund will be on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Academy, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, no exit debt or credit will be due. These bodies will be pooled with the Academy for actuarial valuation purposes.***

***If the Academy does not wish for the contractor to be admitted on a "Pass Through" basis, the Fund will require proof from the Academy that they have permission from the Education and Skills Funding Agency to act as a guarantor.***

- ~~The new employer can have responsibility for all the accrued (and future) benefits of the transferring employees and if this is the case, the Admission Body will usually start fully funded on an ongoing funding basis. The contractor's initial contribution rate would be set on an individual basis by the Fund Actuary and the Academy will carry out an assessment (taking account of actuarial advice) concerning the level of risk arising on the premature termination of the service or in the event of insolvency, winding up or liquidation. This risk assessment needs to be carried out to the satisfaction of the Fund and where required an indemnity or bond must be put in place to meet the level of risk. This should be reviewed periodically. When an Admission Body exits the Fund and it is not possible to obtain all or part of the exit payment due from the exiting Admission Body, or from an insurer, or any person providing an indemnity, bond or guarantee on their behalf, any unpaid amounts will fall to any related Fund employer.~~
- ~~Alternatively, the new employer can be set up on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Academy, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, the Academy will have responsibility for any future liabilities.~~

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**Pensions Committee****1 November 2023****Financial Information Report****Report by Director of Finance and Support Services**

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**Summary**

The Pension Fund has a responsibility to ensure there is enough money in the scheme to pay members' pensions as and when they become due. Member benefits are funded through a combination of employee contributions (fixed nationally), investment returns and employer contributions.

Employer contributions are set by the Actuary as part of the actuarial valuation. Total contributions received from 1 April 2023 were £63.0m, reflecting five payroll months. Income from contributions is supplemented by investment income. During the period to 30 September, investment income of £21.7m was received.

Notwithstanding increases to benefit payments, the Pension Fund is still forecasting a positive cashflow during the year.

The Committee has set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work and reflecting the Pension Committee's investment beliefs.

On 30 September 2023, the portfolio was valued at £5,257.1m, a slight decrease to 30 June 2023 (£5,360.7m). Overall, the portfolio is marginally overweight "growth" assets (52.9% v 50.0%) and underweight for "income" assets (17.9% v 20.0%) and "protection" assets (28.4% v 30.0%). The Pension Fund also held a small working cash balance.

**Recommendation:**

That the Pensions Committee notes the report.

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**1 Background and context**

- 1.1 The Committee has set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work and reflecting the Pension Committee's funding objectives and investment beliefs. The customised benchmark sets out the intended long-term weighting to various types of investment (or asset classes).

## 2 Pension Fund Account

- 2.1 The table below summarises the income and expenditure relating to dealing with members, employers and others directly involved in the scheme for the year to date. All figures are reflective of five months of transactions due to timing of payments.

	<b>1 April to 30 Sept 2023</b>	<b>2022/23 Actuals</b>
	<b>£'000</b>	<b>£'000</b>
Contributions Received	63,027	151,734
Transfers in from other Pension Funds	5,714	12,315
Benefits Paid	(60,985)	(129,432)
Payment to and on account of leavers	(5,201)	(10,041)
<b>Net</b>	<b>2,555</b>	<b>24,576</b>

- 2.2 The table below summarises the income relating to pension fund investments for the year to date (and for 2022/23 as a comparator). Investment income on pooled equity and bond funds is accrued during the year and paid annually (February). Currently this is reinvested in the relevant pooled funds.

<b>Type of income</b>	<b>1 April to 30 Sept 2023</b>	<b>2022/23 Actuals</b>
	<b>£'000</b>	<b>£'000</b>
Pooled equity fund income	0	32,460
Pooled bond fund income	0	45,269
Private equity income	304	599
Private debt income	5,979	6,285
Infrastructure income	4,052	14,169
Property income	10,834	22,944
Interest on cash	514	1,058
Stock lending income	0	0
<b>Total</b>	<b>21,683</b>	<b>122,784</b>

## 3 Forward Look

- 3.1 The Strategic Investment Strategy includes a 0% weighting to cash. However, working balances of £10-15m have been considered appropriate to pay pensions, to fund private equity, infrastructure, and commercial property investments and to pay day-to-day expenses.

- 3.2 The table below considers the current income and expenditure against forecast and whether any adjustments to the assumptions should be made. More detailed cashflow modelling will be developed by officers.

	<b>2023/24 forecast £'000</b>	<b>Commentary</b>
Contributions Received	147,040	Overall contribution receipts were expected to be slightly lower than 2022/23 (£151.7m).  The contributions received for the first five months of the year are in line with the forecast.  Active membership remains consistent, and at this stage there does not appear to be a trend towards opt-out or moving to the 50/50 Scheme.
Transfers in from other Pension Funds	10,700	Transfers in line with forecast.  However, this activity will depend on membership movements and cannot be predicted with any certainty.
Benefits Paid	(142,380)	The pattern of benefit payments to date suggests that overall they will be lower than forecast and more in line with 2022/23 (£129.4m).
Payment to and on account of leavers	(9,000)	Transfers out are in line with forecast.  However, this activity will depend on membership movements and cannot be predicted with any certainty.
Rental income	23,561	Rental income was expected to increase compared to 2022/23 (£22.9m).  Initial receipts are slightly below estimates.
<b>Net position</b>	<b>29,921</b>	

- 3.3 There are currently no known employer exits with the potential to be a cashflow pressure.
- 3.4 Income and call requests for private equity and private debt are too uncertain to reflect within the above analysis. However, the Pension Fund currently holds sufficient cash balances to fund anticipated call requests from the underlying managers. The table below summarises the remaining commitments made to private equity and private debt and the Net Asset Value as a proxy for potential income.

<b>Asset class and manager</b>	<b>Estimated outstanding commitment to be called £'000</b>	<b>Valuation on 30 Sept 2023 £'000</b>
<b>Private Equity</b>	<b>164,683</b>	<b>155,146</b>
Pantheon	-	26,973
Partners I	-	16,931
Partners II	87,077	102,848
Partners III *	77,606	8,394
<b>Private Debt</b>	<b>49,347</b>	<b>206,265</b>
Goldman Sachs	18,097	111,643
ICG	31,250	94,622

\* There has been one call of £8.4m on the Partners III fund following the commitment in September 2023.

#### 4 Net Asset Position

4.1 The table below shows the market value of the pension fund's portfolio on 30 June 2023 against the strategic targets. The Committee have agreed an approach to realignment of the portfolio to ensure it remains in line with the strategic benchmark.

<b>Asset Class</b>	<b>Market Value 31 March 2023 £'000</b>	<b>Purchases / Sales £'000</b>	<b>Change in Market Value £'000</b>	<b>Market Value 30 Sept 2023 £'000</b>	<b>Actual 30 Sept 2023 %</b>	<b>Target %</b>
<b>Growth</b>	<b>2,843,659</b>	<b>12,733</b>	<b>-76,067</b>	<b>2,780,325</b>	<b>52.9%</b>	<b>50%</b>
Equities	2,701,752	0	-76,573	2,625,179	49.9%	45%
Private Equity	141,907	12,733	506	155,146	3.0%	5%
<b>Income</b>	<b>946,404</b>	<b>-9,914</b>	<b>14,922</b>	<b>939,312</b>	<b>17.9%</b>	<b>20%</b>
Property	490,475	-5,250	1,450	474,575	9.0%	10%
Private Debt	196,653	2,841	6,771	206,265	3.9%	5%
Infrastructure	259,276	-7,505	6,701	258,472	4.9%	5%
<b>Protection</b>	<b>1,508,459</b>	<b>0</b>	<b>-12,806</b>	<b>1,495,654</b>	<b>28.4%</b>	<b>30%</b>
Fixed Income	1,508,459	0	-12,806	1,495,654	28.4%	30%
<b>Other</b>	<b>33,595</b>			<b>41,861</b>	<b>0.8%</b>	<b>0%</b>
Cash	33,595			41,861	0.8%	0%
<b>Total</b>	<b>5,332,117</b>	<b>2,819</b>	<b>-73,951</b>	<b>5,255,262</b>	<b>100%</b>	<b>100%</b>



- 4.2 Cash balances on 30 September 2023 are invested in line with the Pension Fund's Treasury Management Strategy, as set out below:

<b>Description</b>	<b>Limit</b>	<b>£'000</b>
Lloyds USD		5,262
Lloyds Euro		1,562
Lloyds GBP		28
Blackrock Sterling Liquidity AAA (5.23%)	£10m	10,000
Federated Prime Sterling Liquidity Fund AAA (5.35%)	£10m	10,000
Goldman Sachs Liquidity Fund AAA (5.22%)	£10m	2,000
Morgan Stanley Sterling Liquidity AAA (5.27%)	£10m	10,000
<b>Sub-total</b>		<b>38,852</b>
Total custodian cash (excl. accruals for recoverable taxes)		1,119
<b>Total cash</b>		<b>39,971</b>

- 4.3 Performance information is reported within the Investment Performance & Funding agenda item.

## **5 Other options considered (and reasons for not proposing)**

- 5.1 N/A

## **6 Consultation, engagement and advice**

- 6.1 N/A

## **7 Finance**

- 7.1 N/A

## **8 Risk implications and mitigations**

- 8.1 Risks associated with this report are covered within the Business Plan agenda item.

## **9 Policy alignment and compliance**

- 9.1 N/A

Taryn Eves

**Director of Finance and Support Services**

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**Appendices** None **Background papers** None

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