# Public Document Pack

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Director of Law and Assurance

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17 January 2020

**Pensions Panel**

A meeting of the panel will be held at **10.00 am** on **Monday, 27 January 2020** at **County Hall, Chichester**.

**Tony Kershaw**
Director of Law and Assurance

## Agenda

### Part I

10.00 am 1. **Declarations of Interests**

Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

It is recorded in the register of interests that:
- Mr Donnelly is a Horsham District Councillor
- Mr Elkins is a Member of the Littlehampton Harbour Board and Arun District Council
- Mr Hunt is the Chairman of the Chichester Harbour Conservancy
- Mr Jupp is a Member of Horsham District Council and has a daughter who works for Blackrock
- Dr Walsh is a Member of the Littlehampton Harbour Board, Arun District Council and Littlehampton Town Council

These financial interests only need to be declared at the meeting if there is an agenda item to which they relate.

10.01 am 2. **Part I Minutes of the last meeting** (Pages 5 - 12)

The Panel is asked to agree the Part I minutes of the meeting of the Panel held on 25 October 2019 attached (cream paper).

10.02 am 3. **Urgent Matters**

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

10.03 am 4. **Part II Matters**

Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.

10.04 am 5. **Motions Received from Employers** (Pages 13 - 18)

The Panel to discuss motions that have been received from employers within the pension fund.

10.09 am 6. **Pension Advisory Board Minutes - Part I**

The Panel is asked to note the confirmed Part I minutes from the meeting of the Pension Advisory Board on 4 September 2019 and the agenda from the meeting of the Pension Advisory Board on 20 November 2019.

(a) **4 September 2019 - Part I Pension Advisory Board Minutes** (Pages 19 - 24)

(b) **20 November 2019 - Pension Advisory Board Agenda** (Pages 25 - 28)

10.10 am 7. **Business Plan** (Pages 29 - 46)

Report by the Director of Finance and Support Services.

The Panel is asked to note the updates to the Business Plan.

10.20 am 8. **Pension Administration Performance** (Pages 47 - 58)

Report by the Director of Finance and Support Services.

The Panel is asked to consider the recommendation within the report.

10.40 am 9. **Actuarial Valuation** (Pages 59 - 106)

Report by the Director of Finance and Support Services.

The Panel is asked to:

(1) agree the current version of the Funding Strategy Statement for publication by 31 March 2020, unless amended.

(2) agree that any further amendments to the Funding Strategy Statement can be agreed by the Director of Finance

and Support Services, in consultation with the Chairman to allow the Statement to be published by 31 March 2020.

10.50 am 10. **Treasury Management Strategy** (Pages 107 - 114)

Report by the Director of Finance and Support Services.

The Panel is asked to:

(1) approve the 2020/21 Treasury Management Strategy as set out in Appendix 1.

(2) note the treasury activity undertaken during 2019/20 (1 April to 31 December 2019).

10.55 am 11. **Date of the next meeting**

The next meeting of the Pensions Panel will be 10.00 a.m. 27 April 2020 at County Hall.

**Part II**

10.55 am 12. **Exclusion of Press and Public**

The Board is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

10.55 am 13. **Part II Minutes of the last meeting** (Pages 115 - 120)

To confirm the Part II minutes of the meeting of the Panel held on 25 October 2019, for members of the Panel only (yellow paper).

10.55 am 14. **Pension Advisory Board Minutes - Part II** (Pages 121 - 124)

The Panel is asked to note the confirmed Part II minutes from the meeting of the Pension Advisory Board on 4 September 2019 (yellow paper).

10.55 am 15. **AVC Transfer** (Pages 125 - 128)

Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).

The Panel is asked to consider the recommendations within the report.

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| 11.05 am | 16. | **ACCESS** (Pages 129 - 188) |

Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).

The Panel is asked to consider the recommendations within the report.

| | | |
|---|---|---|
| 11.15 am | 17. | **Review of Pension Investment Performance** |

The following reports are for the Panel to review Pension performance over the last quarter.

(a) **Transaction and Performance** (To Follow)

Paper by the Director of Finance and Support Services summarising transactions and performance during the quarter, for members of the Panel only (yellow paper).

(b) **Independent Fund Advisor Comments** (To Follow)

Paper from the independent fund advisor giving comments on the quarter, for members of the Panel only (yellow paper).

| | | |
|---|---|---|
| 11.30 am | 18. | **Presentation by Baillie Gifford** |

The Panel to receive a presentation on portfolio performance.

| | | |
|---|---|---|
| 12.15 pm | 19. | **Presentation by Aberdeen Standard** |

The Panel to receive a presentation on portfolio performance.

**Lunch**

| | | |
|---|---|---|
| 2.00 pm | 20. | **Income Fund Options** (Pages 189 - 204) |

Report by the Director of Finance and Support Services attached for members of the Panel only (yellow paper).

The Panel is asked to consider the recommendations within the report.

**To all members of the Pensions Panel**

**Pensions Panel**

25 October 2019 – At a meeting of the Pensions Panel held at 10.00 am at County Hall, Chichester.

Present: Mr Hunt (Chairman)

Mr Bradford, Mrs Dennis, Mr Elkins, Mr Jupp, Mrs Urquhart, Dr Walsh and Mr Donnelly

Apologies were received from Ms Taylor

Absent: Vac - General

Also in attendance:

**Part I**

## 29. Declarations of Interests

29.1 None declared.

## 30. Part I Minutes of the last meeting

30.1 The Panel queried the progress with appointing for the Employer Representative vacancy. – *Rachel Wood, Pension Fund Investment Strategist, confirmed that work was continuing with the Director of Law and Assurance on the job role that would be distributed.*

30.2 Resolved – That the Part I minutes of the Pensions Panel held on 24 July 2019 be approved as a correct record, and that they be signed by the Chairman.

## 31. Minutes from the Annual Meeting of the Pensions Panel and the Employers in the Fund

31.1 Resolved – That the minutes of the Pensions Panel AGM held on 24 July 2019 be approved as a correct record, and that they be signed by the Chairman.

## 32. Pension Advisory Board Minutes - Part I

32.1 The Panel considered the confirmed Part I minutes from the 22 May 2019 Pension Advisory Board meeting; and the Agenda from the 4 September 2019 meeting (copies appended to the signed minutes).

32.2 The Panel made comments including those that follow.

- Queried if the Board's regarding policy documentation had been addressed. – *Rachel Wood confirmed that the action had been picked up and resolved.*
- Sought clarity on the reported outcomes of McCloud on employer rates. – *Steven Law, Hymans Robertson, explained that protection*

*would be rolled out to an increased membership. Whilst it was unclear who this would be rolled out to, costs would be increased.*

32.3 Resolved – That the minutes and agenda be noted.

**33. Actuarial Valuation 2019**

33.1 The Panel considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

33.2 Rachel Wood introduced the report which set out the summary since the last meeting. The report confirmed that the current funding level was 112%, and that new rates following the valuation would be effective from 1 April 2020.

33.3 Steven Law gave a presentation to the Panel on the 2019 Valuation Results (copy appended to the signed minutes).

33.4 Steven Law spoke through the presentation which outlined the calculations and assumptions that formed the valuation work to ensure that the pension fund could deliver its requirements for members. The presentation included 2 updates from Central Government. The first confirmed there would be a 2022 valuation, but it was unconfirmed what would happen after this. The second concerned the value of liabilities and that contribution rates needed to take allowance of McCloud and cover this within the valuation.

33.5 Steven Law explained that it was no longer required for members to submit nomination forms which was previously required to pay death grants. The fund had the authority to choose to pay an alternative person than the one stated on a nomination form. Steven Law confirmed that there was general rules and criteria for these decisions. - The Chairman requested that clarity on this process should be available for the next meeting (document appended to the signed minutes).

33.6 The Panel made comments including those that follow.

- Queried if Retail Prices Index (RPI) would be removed from future valuation calculations. – *Steven Law predicted that it could be replaced with an alternative in the future.*
- Asked how life expectancy for future members was considered. – *Steven Law explained that this was allowed for in mortality projections portion of assumptions. The pace of increases in life expectancy is reflected in this assumption.*
- Commented on the consideration for salary increases and that average earnings could outpace the Consumer Prices Index (CPI); and asked if it would it be prudent to expect salaries to match the market. – *Steven Law explained that the first year had lower paid staff get increases as the living wage was introduced, this was used to help with considering the average. Promotional increases are applied on top of the 0.5%.*
- Reported on the increases to British Telecom (BT) pensions for women following a change in pension calculations and asked if this was unique to BT. – *Steven Law explained this was not unique to*

*BT and was linked to the Barber ruling and the Lloyds ruling concerning sexual discrimination in pension ages. The Lloyds ruling would impact the Local Government Pension Scheme (LGPS). A lower anticipated return rate had been picked for the LGPS which made approximate allowance for this and for the McCloud outcome.*

- Noted the overall funding level of 112% and queried the funding level for various employers. – *Steven Law confirmed that employers had different values which were still being calculated. District Council's had long term plans, and their rates were not linked to their funding level on any one day. Funding levels were more significant for employers who can leave the fund in the short term.*
- *Queried the spike for cashflow considerations in 2021. – Steven Law explained that the data replacement ratio was 100%, which related to jobs being replaced by those retiring. The spike could indicate an expected rise in the number of leavers.*
- Sought clarity on considered assumptions for new entrants and those with outsourcing strategies. – *Steven Law explained that TUPE arrangements were considered and that this pension fund had no particular large outsourcing arrangements to consider. The assumption therefore was that the fund would stay the same.*

33.7 Resolved – that the Panel notes the update in the report and the contents of the presentation.

## 34. Business Plan

34.1 The Panel considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

34.2 Nadine Muschamp, Head of Finance, introduced the report and explained that the report provide an update on actions from the previous meeting. Appendix A gave a summary of the Pension Regulator's deep dive, for which officers were working with Hampshire County Council on any areas that needing picking up.

34.3 The Panel noted that the Annual Audit Letter would be considered at the upcoming meeting of the Regulation, Audit and Accounts Committee.

34.4 Resolved – that updates to the Business Plan are noted.

## 35. Equitable Life transfer to Utmost Life and Pensions (AVCs)

35.1 The Panel considered a report by the Director of Finance and Support Services.

35.2 The Panel noted that the report appendices contained exempt information and felt that the discussion on the report should be held in Part II.

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

The Panel discussed the proposal and agreed to the approve the Scheme and Change to the Articles pending criteria discussed during the Part II portion of the meeting.

**36. Pension Administration Performance**

36.1 The Panel considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

36.2 Nadine Muschamp introduced the report and explained that representatives from Hampshire County Council had sent their apologies for the meeting.

36.3 Nadine Muschamp confirmed that Hampshire County Council were committed to improving performance and noted the impact of legacy issues on their performance. Officers were working with Hampshire County Council on a data improvement plan which would be reported on at the next meeting.

36.4 Nadine Muschamp reported that as of 31 August approximately 49,000 Annual Benefit Statements (ABS) had been produced. Since then approximately 2,000 had also been provided. There were 7,000 remaining where further work was required. The outstanding ABSs would be reviewed with regard to if they constituted a breach.

36.5 The Panel made comments including those that follow.

- Expressed disappointment that all ABSs had not been submitted on time following Hampshire County Council's confidence. – *Nadine Muschamp gave assurances that identified issues were being worked on to ensure improvements were made for next year.*
- Queried if the 7,000 outstanding ABSs were from a mix of areas or were linked to a specific scheme. – *Steven Law confirmed that they were from a mix of areas and that Hampshire County Council had provided details of where they were to assist Hymans Robertson with the valuation work.*
- Raised concerns on the reduced performance for Divorce and Interfunds. – *Rachel Wood confirmed that Interfunds had fallen back and that Hampshire County Council had split legacy and business as usual work into two work streams. Divorce work was done by the same team where Hampshire County Council worked to ensure data was provided to members when required, albeit not always complying with the SLA. The Panel asked if these areas were more technically difficult that other areas. – Rachel Wood reported that the work was the same level as other areas and should be straight forward if the correct data is available.*
- Queried if the data issues were historic or linked to transfer arrangements; and if the issues would impact the valuation work. – *Steven Law reported that the majority of the issues were historic and the valuation would make assumptions on any uncertain areas.*

- Sought reassurance that correspondence on death cases included appropriate empathy. – *Rachel Wood confirmed this was the case.*
- Queried the process for nominating a beneficial for death benefits. – *Steven Law explained that the criteria was that an individual with a minimum relationship.*
- Asked if the backlog and data quality issues were linked to resourcing and if extra support was required. – *Nadine Muschamp explained that a plan was being worked on with Hampshire County Council to understand what was a reasonable work load. Consideration would then be given to see if additional resources were available. This would be reported to the next Panel meeting. The Chairman reminded the Panel that any new administration provider would have been more that the previous contract, even if the service has still be provided by Capita.*
- Sought clarity on the expectation of Hampshire County Council to achieve their SLA following the transfer. – *Katharine Eberhart, Director of Finance and Support Services, resolved to look into the contract wording, but reported that there had not been an expectation of immediate SLA compliance. The Chairman expected that improvements would be seen in January and that the Panel would be monitoring compliance closely. It was reported that Hampshire County Council were quick to resolve any specific issues that were raised. Panel members observed that there has been a reduction in complaints received.*
- Commented on the regulatory requirements for the level of training for Pension Advisory Board members. – *Steven Law reported that in the future the Pensions Panel members would be held to the same regard.*

36.6 Resolved – that the Panel note the update on Administration Performance; the updates to the Administration Strategy; and agree the Breaches Policy.

## 37. Date of the next meeting

37.1 The Panel noted that its next scheduled meeting would take place on 27 January 2020 at County Hall, Chichester.

## 38. Exclusion of Press and Public

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

## 39. Part II Minutes of the last meeting

The Panel agreed the Part II minutes of the Pensions Panel held on 24 July 2019.

## 40. Pension Advisory Board Minutes - Part II

The Panel noted the contents of the Part II minutes from the 22 May 2019 Pension Advisory Board meeting.

## 41. ACCESS Update

The Panel considered a report by the Director of Finance and Support Services.

The Panel noted the update.

## 42. Review of Pension Performance

The Panel considered a paper by the Director of Finance and Support Services.

The Panel received an update from Caroline Burton relating to the quarterly performance reports from the fund managers.

The Panel welcomed the advice.

## 43. Presentation by UBS

The Panel received an update from Malcolm Gordon, Steve Magill, Scott Wilkin and Karianne Lancee from UBS on the portfolio performance for the quarter.

The meeting ended at 12.55 pm

Chairman

**Death grants and spouses benefits**

Death Grants

A death grant is payable when an active, deferred or in some circumstances a pensioner member dies. Under the current regulations the value payable is;

| Status | Death Grant |
|---|---|
| **Active member** | 3 times assumed pensionable pay |
| **Deferred member** | 5 times deferred pension |
| **Pensioner member** | (If the member has died within 10 years of retiring) the balance of 10 years' worth of pension |

There is no specific LGPS regulation or guidance that funds must follow when determining the recipient of a death grant. It is not a pension matter per se, it's more a matter of the correct exercise of powers under public law principles that have accrued over time through case law.

The most often cited case is the Associated Provincial Picture Houses Limited v Wednesbury Corporation 1948 ("Wednesbury"). During the case the Lord Green gave his view that:

> a person entrusted with a discretion must direct himself properly in law, calling his attention to the matters which he is bound to consider and excluding from his consideration matters which are irrelevant to what he has to consider. Failure to obey these rules may be said to be acting unreasonably. However, at the extreme end, there may arise something so absurd that no sensible person could ever dream that it lands within the powers of the authority.

This is why you often see quoted in Independent Dispute Resolution Process cases, words to the effect that:

> a decision by an employer/administering authority can only be overturned if in reaching their view they have either acted ultra vires, failed to consider a relevant matter, considered an irrelevant matter or reached a decision that no reasonable person could have reached.

In short, the Fund must listen to all sides of the story, weigh up all the relevant arguments, not break the law and not do something out of the ordinary. An expression of wish form can help guide the Fund in its determination, but it does not necessarily need to follow this.

Funds usually consider how much weight to put on each piece of evidence available to it. Most funds naturally place considerable weight on an up to date expression of wish form which names the deceased's wife and children as beneficiaries. However, if a fund were faced with a decade old expression of wish form that named a former partner but you knew that the member had since got married and had children it would be difficult to make the judgment that that was really what the member intended. Among the things a fund might consider in making a decision are the member's domestic arrangements when they died, whether they left a will or not, and in some cases it may be necessary to talk to the member's surviving relatives.

For the West Sussex Scheme….

The Administering Authority Discretions include the following:

***Decide to whom a death grant is paid***
*Where it is clear, having taken account of all the circumstances, payment is taken in accordance with the member's expression of wish. If no wish has been made, then payment is made to the legal spouse, cohabiting partner or civil partner following receipt of Grant of Probate or Form of Indemnity.*

*Where there is any doubt this is delegated to the Principal Pension Consultant (Administration and Employers)*

**Payment of Spouse's, civil partner's or cohabitees Pension**

The situation when paying a pension is different, as the fund is not exercising a discretion. The LGPS regulations establish to whom you must pay a pension and the fund is simply establishing that the individual meets the criteria and then paying the pension to them. In the case of a spouse or civil partner that is a simple case of having sight of the legal paperwork. However, proof of meeting the cohabiting criteria is more difficult and does require some judgment. As it stands in the LGPS (and please note this area is constantly subject to legal challenge) a cohabiting partner must at the time of death:

- Have been able to marry or form a civil partnership with the deceased
- Not have been living with anyone else as if they were married or in a civil partnership
- Been financially dependent on the member or been financially interdependent with them.

The above situation must have endured for at least 2 years (we believe this criteria may eventually be challenged in court).

Typically when considering eligibility, funds will look for things like a joint mortgage statement, joint bank account or utility bills in both names. Even receipts for the family shopping could support a cohabiting partner's claim.

The ever expanding scope and definitions of who is eligible to receive these benefits has been reflected in the actuarial assumptions (i.e. the probability they will be paid on death is increasing), which leads to slightly higher liabilities.

For the West Sussex Scheme….

Verification of marriage, civil partnership etc. is obtained by Hampshire Pension Services or the team establish whether the deceased and their partner were living together, financially dependent on each other, and whether they were free to marry.

ADC
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COUNCIL

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Chapel Road
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Councillor Jeremy Hunt
Chairman of the West Sussex County Council Pensions Panel
County Hall
Chichester
West Sussex PO19 1RQ

**Date:** 9th January 2020
**Service:** Chief Executive

**Tel:** 01903 221001
alex.bailey@adur-worthing.gov.uk

Dear Councillor Hunt,

**Disinvestment from Fossil Fuels**

I write on behalf of Adur District Council.

I am instructed by Full Council to write to you following the passing of a Motion on Notice calling upon the Trustees of the West Sussex County Council Local Authority Pension Fund to disinvest that fund of all investments in fossil fuel stocks, equities and funds.

I attach (for ease of reference) the Motion on Notice passed unanimously on Thursday 19th December 2019.

I know that Members of the Council will be interested to hear your response once you have had the opportunity of considering the Motion on Notice.

Yours sincerely

Alex Bailey
**Chief Executive**
Direct Email: alex.bailey@adur-worthing.gov.uk
01903 221001

c.c. jeremy.hunt@westsussex.gov.uk
Councillor David Bradford (david.bradford@westsussex.gov.uk)
Councillor Joy Dennis (joy.dennis@westsussex.gov.uk)
Councillor Roger Elkins (roger.elkins@westsussex.gov.uk)
Councillor Nigel Jupp (nigel.jupp@westsussex.gov.uk)
Councillor Deborah Urquhart (deborah.urquhart@westsussex.gov.uk)

Councillor Dr James Walsh (james.walsh @westsussex.gov.uk)
Councillor Brian Donnelly (brian.donnelly@horsham.gov.uk)
Judith Taylor

Councillor George Barton, Chairman Adur District Council
Councillor Neil Parkin, Leader Adur District Council
Councillor Lee Cowen, Leader of Adur Labour Group

Councillor Paul Marshall, Leader West Sussex County Council
Lee Harris, Acting Chief Executive, West Sussex County Council

ADUR DISTRICT
COUNCIL

**Extract from the Minutes of the Council meeting held on 19th December 2019**

Before the Council was a Motion received from Councillor Neil Parkin and seconded by Councillor Angus Dunn.

*This Council declared a Climate Emergency in July 2019 and has worked hard to create a robust Carbon Reduction Plan to work towards carbon neutrality for the Council by 2030. The Council has created a new Sustainable AW Framework to steer and guide a range of activities so that Council, businesses, community groups and individuals can work well together to take this agenda forward. We are putting our own house in order.*

*This Council now calls upon the Trustees of the West Sussex County Council Local Authority Pension Fund (of which the Councils employees are members) to divest that fund of all investments in fossil fuel stocks, equities and funds and it instructs the Councils Chief Executive to write to the Trustees of the fund with a copy of this Motion on Notice and asking them to take action.*

Members debated the motion and an on a vote the motion was carried

> **Resolved:** This Council declared a Climate Emergency in July 2019 and has worked hard to create a robust Carbon Reduction Plan to work towards carbon neutrality for the Council by 2030. The Council has created a new Sustainable AW Framework to steer and guide a range of activities so that Council, businesses, community groups and individuals can work well together to take this agenda forward. We are putting our own house in order.
>
> This Council now calls upon the Trustees of the West Sussex County Council Local Authority Pension Fund (of which the Councils employees are members) to divest that fund of all investments in fossil fuel stocks, equities and funds and it instructs the Councils Chief Executive to write to the Trustees of the fund with a copy of this Motion on Notice and asking them to take action.

WBC

WORTHING BOROUGH
COUNCIL

Worthing Borough Council
Worthing Town Hall
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Councillor Jeremy Hunt
Chairman of the West Sussex County Council
Pensions Panel
County Hall
Chichester
West Sussex PO19 1RQ

**Date:** 9th January 2020
**Service:** Chief Executive

**Tel:** 01903 221001
alex.bailey@adur-worthing.gov.uk

Dear Councillor Hunt,

**Disinvestment from Fossil Fuels**

I write on behalf of Worthing Borough Council.

I am instructed by Full Council to write to you following the passing of a Motion on Notice calling upon the Trustees of the West Sussex County Council Local Authority Pension Fund to disinvest that fund of all investments in fossil fuel stocks, equities and funds.

I attach (for ease of reference) the Motion on Notice passed with an overwhelming majority (28 for – nil against - 4 abstentions) on Tuesday 17th December 2019.

I know that Members of the Council will be interested to hear your response once you have had the opportunity of considering the Motion on Notice.

Yours sincerely

Alex Bailey
**Chief Executive**
Direct Email: alex.bailey@adur-worthing.gov.uk
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c.c. jeremy.hunt@westsussex.gov.uk
Councillor David Bradford (david.bradford@westsussex.gov.uk)
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Councillor Deborah Urquhart (deborah.urquhart@westsussex.gov.uk)
Councillor Dr James Walsh (james.walsh @westsussex.gov.uk)
Councillor Brian Donnelly (brian.donnelly@horsham.gov.uk)
Judith Taylor

Councillor Hazel Thorpe, Worthing Mayor
Councillor Dan Humphreys, Leader Worthing Borough Council
Councillor Rebecca Cooper, Leader of Worthing Labour Group
Councillor Robert Smytherman, Leader of Worthing Liberal Democrat Group

Councillor Paul Marshall, Leader West Sussex County Council
Lee Harris, Acting Chief Executive, West Sussex County Council

Adur and Worthing Councils, Town Hall, Worthing, West Sussex BN11 1HS
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WORTHING BOROUGH
COUNCIL

**Extract from the Minutes of the Council meeting held on 17th December 2019**

Before the Council was a report by the Director of Communities, which had been circulated to all members and a copy of which is attached to the signed version of these minutes.

The motion was proposed by Councillor Louise Murphy and seconded by Councillor Sean McDonald.

Council debated the motion, generally expressing support and on a vote:

For 28, Against 0, Abstain 4

**Resolved,**

This Council declared a Climate Emergency in July 2019 and has worked hard to create a robust Carbon Reduction Plan to work towards carbon neutrality for the Council by 2030. The Council has created a new Sustainable AW Framework to steer and guide a range of activities so that Council, businesses, community groups and individuals can work well together to take this agenda forward. We are putting our own house in order.

This Council now calls upon the Trustees of the West Sussex County Council Local Authority Pension Fund (of which the Councils employees are members) to divest that fund of all investments in fossil fuel stocks, equities and funds and it instructs the Councils Chief Executive to write to the Trustees of the fund with a copy of this Motion on Notice and asking them to take action.

**Pension Advisory Board**

4 September 2019 – At a meeting of the Committee at 9.30 am held at County Hall, Chichester, PO19 1RQ.

Present: Peter Scales (Chairman)

Richard Cohen, Miranda Kadwell, Kim Martin, Becky Caney, Chris Scanes and Tim Stretton

Officers in attendance: Nadine Muschamp (Head of Finance), Rachel Wood (Pension Fund Investment Strategist), Tara Atkins (Principal Pensions Consultant (Administration & Employers)) and Adam Chisnall (Democratic Services Officer)

**Part I**

17. **Declarations of Interests and Conflicts**

17.1 None declared.

18. **Part I Minutes of the last meeting**

18.1 Resolved – That the part I minutes of the meeting of the Board held on 22 May 2019 be approved as a correct record and signed by the Chairman.

19. **Progress Report**

19.1 The Board considered the progress report on matters arising from previous meetings (copy appended to the signed minutes).

19.2 Adam Chisnall (Democratic Services Officer) introduced the report and highlighted the actions that had taken place since the last Board meeting.

19.3 The Board discussed the outstanding action regarding newsletters and queried how this would be undertaken. - *Tara Atkins (Principal Pensions Consultant (Administration & Employers)) explained that Hampshire County Council worked differently to Capita in that they did not do active member newsletters and instead added comments to the Annual Benefit Statements (ABS). Pensioner newsletters had already been published. Conversations were planned with Hampshire County Council to discuss how to incorporate the Board on newsletters. Rachel Wood (Pension Fund Investment Strategist) confirmed that the Communication Strategy had come to the Board previously and could be discussed at a future Board meeting, and so newsletter arrangements could be considered further then. Lois Downer (Deputy Head of Pensions at Hampshire County Council) had attended the previous Board meeting and noted the Board's request to be involved with newsletters.*

19.4 The Board queried when ABSs would be released. - *Tara Atkins confirmed that the ABSs should be available on the portal and recommended that queries should be raised with Hampshire County*

*Council if there were any difficulties in accessing them. It was confirmed that unless the member has opted out of e-communication, individuals who had not signed up to the new portal would not receive a paper ABS as the existing paperless policy remained in place.*

19.5 Employer Representatives reported that they had received good feedback on the portal and the ABSs; and praised the stop press email that had been circulated to staff members. Comments had been received that information such as spouse and death benefit information were missing on some ABSs. – *Rachel Wood explained that this information should have been automatically copied over. The ABS should be used for assurance purposes and to highlight any gaps in information that required completing.*

19.6 The Board queried how the issues that had been experienced by members would be picked up and be communicated on. – *Rachel Wood explained that Hampshire County Council would be driving most communications and that the alignment of the communications strategy would help with the issues. Tara Atkins explained that County Council communications used the Gov Delivery system for emails and so an approach was required that would align with the portal system.*

19.7 Resolved – That the Board noted the report.

20. **Pensions Panel Meetings**

20.1 The Board considered a report from the Chairman of the Pension Advisory Board which included the confirmed part I minutes from the 29 April 2019 Pensions Panel meeting; and the Agendas from the 24 July 2019 Pensions Panel meeting and the Annual General Employer Meeting (AGM) (copies appended to the signed minutes).

20.2 The Chairman introduced the report and reported on the Pensions Panel and the AGM that he attended.

20.3 Board members discussed the AGM and felt that it had been well received by employers but had not been as well attended as previous years. Board members felt the agenda items had been brief but informative. – *Rachel Wood reported that officers would review employer engagement for future AGM items.*

20.4 The Board discussed the investment portion of the AGM and felt that, whilst it was not an area employers could interact with, it was informative to give assurance on investment principles. – *Rachel Wood added that it was a useful section of the AGM to explain the processes and decisions that would impact employer contribution rates.*

20.5 Queried which fund manager would be attending the AGM next year. – *Rachel Wood explained that it would be UBS's turn, but officers would need to see how this would be impacted by pooling arrangements.*

20.6 Resolved – That the report, minutes and agendas be noted.

## 21. Business Plan Update

21.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

21.2 The Chairman introduced the report and explained that the format aligned with the Business Plan updates for the Pensions Panel. Appendix A outlined the key items for the Board and areas to be reminded of. A new risk had been included which concerned the regulators understanding of the role of Pension Boards. The report also included updates to the Pensions Panel Business Plan at Appendix C.

21.3 Resolved – That the Board notes the updates to the Business Plans of the Pension Advisory Board and the Pensions Panel.

## 22. Regulations and Guidance update

22.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

22.2 The Chairman introduced the report and explained that Appendix A outlined relevant bulletins that the Chairman would continue to circulate to the Board when they were of particular relevance or importance.

22.3 The Chairman drew the attention to Appendix C which outlined a briefing which could become a regulation; and Appendix D which concerned environmental, social and governance (ESG) and responsible investments which would be something that the Board should monitor that the Panel is aware of.

22.4 Resolved – That the Board notes the current issues relating to Scheme Regulations and Guidance.

## 23. Governance Reviews and Surveys

23.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

23.2 The Chairman introduced the report and explained that the results of the Hymans Robertson Good Governance review would be going to the Scheme Advisory Board. Board members were reminded that a link had been included to this report as a Background paper for the Business Plan Update report.

23.3 Appendix A gave a summary of the results of the Pensions Regulator survey on Governance and Administration.

23.4 The Chairman spoke through Appendix B which covered a proposed response to the Local Pension Board Survey.

23.5 The Board discussed the survey response and made comments including those that follow.

- Confirmed for question 9 that the scheme manager made a recommendation to the Governance Committee for Chairman appointments.
- Felt for question 17 that it should be clear that the Board had adopted the County Council policy for conflicts of interests.
- Queried for question 18b if declaration of potential conflicts of interests should be done annually. – *Adam Chisnall confirmed that County Council elected members were asked to routinely confirm that their register of interest was correct, and that this could be something that could be introduced for Board members. The Chairman proposed this activity could form part of the annual assessment. Rachel Wood resolved to look into this.*
- Discussed the '5' ratings for question 33 and agreed that these were appropriate as there were no negative experiences for the instances listed.
- Commented on the proposed percentages for question 44 and felt that the work of the Board was topical and needed to reflect current issues e.g. recently the Board had spent a lot of time looking at Hampshire County Council's administration transfer.

23.6 The Board confirmed they were happy for the Chairman to submit the survey response, subject to the amendments discussed.

23.7 Rachel Wood resolved to share the proposed survey response with Katharine Eberhart, Director of Finance and Support Services.

23.8 Resolved – That the Board notes the publication of the Hymans Robertson Good Governance Review and the outcome of the Pensions Regulator's 2018 Survey. The Board also agreed the suggested responses to the draft Scheme Advisory Board's survey, subject to the amendments discussed.

24. **Review of Pension Fund Policy Documents**

24.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

24.2 Rachel Wood introduced the report and confirmed that Appendix A had been updated following the requests made at the previous meeting.

24.3 The Board were asked to give feedback on the Annual Report which had been considered at the July Pensions Panel meeting. The Pensions Panel had raised comments regarding clarity which had been made for the published version.

24.5 Rachel Wood reported that guidance now required Annual Reports to include all employers within the scheme. These were included in alphabetical order with the contribution amounts included.

24.6 Rachel Wood explained that Appendix C outlined any exceptions to compliance and how these were being justified.

24.7 The Board made comments including those that follow.

- Queried the implications of not adhering to the 'Must's in Appendix C. – *Rachel Wood explained that the Pension Fund had to respond to any areas of non-compliance. The Chairman added that the regulatory requirement was to have regard to CIPFA guidance and that this was less specific than a requirement to comply with Secretary of State guidance. The Chairman added that CIPFA guidance required statutory policy documents to be included in full, whereas he agreed with West Sussex in that including a hyperlink to the document was sufficient.*
- Queried if the Board should respond to the CIPFA guidance to challenge some of the potentially unnecessary requirements and seek compliance for the alternative approach to the regulations e.g. links included rather than full documents. – *Rachel Wood explained that officers could speak to CIPFA to explain how officers believed compliance was being achieved. Rachel Wood added that the inclusion of links within the Annual Report ensured that the correct version was available.*
- Queried if the Internal Dispute Resolution Procedure (IDRP) listed in Appendix A was a requirement. – *Tara Atkins confirmed that this was not a regulatory requirement. The Chairman added that Treasury Management was also not a regulatory requirement. Rachel Wood explained that the Appendix aligned with guidance from Hymans Robertson but resolved to confirm the 'Importance' category for the next Board meeting.*

24.8 The Chairman praised the Annual Report and acknowledged that some areas were not entirely compliant with the detailed specifications in the CIPFA guidance, but that the officers and Panel had clearly had regard to the guidance in the context of the regulatory requirement.

24.9 Resolved – That the Board notes the register of policy document; the compliance of the Annual Report; and that the Pensions Panel have previously agreed the contents.

## 25. Funding Strategy Statement

25.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

25.2 Rachel Wood introduced the report and explained that the Funding Strategy Statement had been considered at the 24 July Pensions Panel meeting. The Pensions Panel had also received a presentation from the actuary which was similar to the actuary presentation at the AGM.

25.3 Rachel Wood highlighted the comments on page 164 which were from employers as part of the consultation exercise.

25.4 The Board made comments including those that follow.

- Queried the powers the actuary had to perform interim valuations to amend contribution rates. – *Rachel Wood explained that the actuary could currently use this power for specific instances in order to manage employer risks.*

- Asked who would pay for the interim valuations if available. – *Rachel Wood explained that employers would be charged for the costs for specific actuary work.*

25.5 Resolved – That the Board notes the Funding Strategy Statement.

26. **Date of Next Meeting**

26.1 The Board noted that its next scheduled meeting would take place on Wednesday 20 November 2019 at 9.30 a.m. at County Hall, Chichester.

27. **Exclusion of Press and Public**

Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

28. **Part II Minutes of the last meeting**

The Board agreed the Part II minutes of the 22 May 2019 meeting.

29. **Pensions Panel Minutes – Part II**

The Board noted the contents of Part II minutes from the 29 April 2019 Pensions Panel meeting.

30. **Administration procedures and performance**

The Board considered the report by the Director of Finance and Support Services which included the Administration Performance report from the 24 July Pensions Panel (copy appended to the signed minutes).

The Board were joined by Andrew Lowe from Hampshire County Council.

The Board made comments on the report and discussed the continuing arrangements with Hampshire County Council following the recent transfer.

31. **ACCESS Update**

The Board considered the report by the Director of Finance and Support Services from the 24 July Pensions Panel (copy appended to the signed minutes).

The Board noted the report.

The meeting ended at 11.50 am

Chairman

**Tony Kershaw**
Director of Law and Assurance

If calling please ask for:

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County Hall
Chichester
West Sussex
PO19 1RQ
Switchboard
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12 November 2019

**Pension Advisory Board**

A meeting of the committee will be held at **9.30 am** on **Wednesday, 20 November 2019** at **County Hall, Chichester, PO19 1RQ**.

Tony Kershaw
Director of Law and Assurance

## Agenda

## Part I

1. **Declarations of Interests and Conflicts**

   Members and officers must declare any pecuniary or personal interest, or any potential conflicts of interest in any business on the agenda. They should also make declarations at any stage such an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt, contact Democratic Services before the meeting.

2. **Part I Minutes of the last meeting** (Pages 5 - 10)

   The Board is asked to agree the Part I minutes of the meeting of the Board held on 4 September 2019 (cream paper).

3. **Urgent Matters**

   Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

4. **Part II Matters**

   Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.

5. **Progress Report** (Pages 11 - 14)

   This report contains updates on matters arising from previous meetings.

   The Board is asked to note the report and the progress on actions.

6. **Pensions Panel Minutes - Part I**

The Board is asked to note the confirmed Part I minutes from the meeting of the Pensions Panel on 24 July 2019; the confirmed minutes from the Annual Meeting of the Pensions Panel and the Employers in the Fund on 24 July 2019; and the agenda from the meeting of the Pensions Panel on 25 October 2019.

(a) **24 July - Part I Pensions Panel Minutes** (Pages 15 - 20)

(b) **24 July - Annual Meeting of the Pensions Panel and the Employers in the Fund Minutes** (Pages 21 - 24)

(c) **25 October - Pensions Panel Agenda** (Pages 25 - 28)

7. **Regulations and Guidance Update** (Pages 29 - 34)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the current issues relating to Scheme Regulations and Guidance.

8. **Governance Reviews and Surveys** (Pages 35 - 52)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the current position on progress on the Scheme Advisory Board (SAB) governance review and to agree how best to manage responses to the surveys expected from The Pensions Regulator (tPR) and SAB.

9. **Business Plan Update** (Pages 53 - 72)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the updates to the Business Plans of the Board and the Panel.

10. **Review of Pension Fund Policy Documents** (Pages 73 - 96)

Report by Director of Finance and Support Services.

The Board is asked to note the register of policy documents and provide feedback on the presented policy.

11. **The Pensions Regulator Code of Practice 14 (Compliance)** (Pages 97 - 108)

Report by Director of Finance and Support Services

The Board is asked to give feedback on the compliance checklist presented at the meeting

12. **Administration procedures and performance** (Pages 109 - 124)

Report by Director of Finance and Support Services.

The Board is asked to consider the report and propose any further information that they require.

13. **Communication Strategy** (Pages 125 - 146)

Report by Director of Finance and Support Services

The Board is asked to note the schedule of Communications drawn from the Communication Strategy and provide feedback.

14. **Training** (Pages 147 - 148)

The Board is asked to review the training log.

15. **Date of Next Meeting**

The next meeting of the Board will be held at 9.30 am on 26 February 2020.

**Part II**

16. **Exclusion of Press and Public**

The Board is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

Exempt: paragraph 3, financial or business affairs of any person (including the authority).

17. **Part II Minutes of the last meeting** (Pages 149 - 152)

The Board is asked to agree the Part II minutes of the meeting of the Board held on 4 September 2019 (yellow paper).

18. **Pensions Panel Minutes – Part II** (Pages 153 - 158)

The Board is asked to note the confirmed Part II minutes from the meeting of the Pensions Panel on 24 July 2019 (yellow paper).

19. **ACCESS Update** (Pages 159 - 170)

The Board is asked to consider the following report which went to the Pensions Panel on 25 October 2019.

Report by Director of Finance and Support Services attached for members of the Board only (yellow paper).

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

| | |
|---|---|
| **Pension Panel** | |
| **27 January 2020** | **Part I** |
| **Business Plan Update** | |
| **Report by Director of Finance and Support Services** | |


## Summary

The Pensions Panel approved its Business Plan for 2019/20 when it met on 29 April 2019.

The Panel will receive an update on progress against the Business Plan objectives, details impact on risk (where applicable) and proposes actions each quarter.


## Recommendation(s)

(1) That the updates to the Business Plan are noted.

## Proposal

### 1. Background and Context

1.1 The Business Plan sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.

1.2 The Pensions Panel approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund. A report based on any emerging key business issues, any issue with the highest levels of risk identified, any area of concern with administration performance or any other matter the Director of Finance and Support Services wishes to bring to the attention of the Panel is then provided to the Panel each quarter.

1.3 The Fund's overarching objectives are set out below:

- **Governance:** Act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, and well based, ensuring sound governance, risk management and compliance and that the management of the Fund is undertaken by people who have the appropriate knowledge and expertise.

- **Investments and Funding:** To maximise returns from investments within reasonable risk parameters and with clear investment decisions based on a prudent long term funding priorities given the preference to keep employer contribution rates are reasonably stable where appropriate.

- **Administration and Communication:** 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.

## 2. Update on Business Plan Priorities – Q3

2.1 The table below provides an update on the Business Plan Priorities for 2019/20.

| | Area | Update |
|---|---|---|
| **a)** | Pension Administration (including Employer data quality) | Performance has improved following ring-fencing of case work and stabilisation of work volumes.<br><br>A data improvement plan has been developed by the Pension Fund in consultation with the administration team and its Actuary. It is anticipated that this will be delivered over a period to October 2020.<br><br>See Agenda Item 7. |
| **b)** | Reconciliation to HMRC of GMP (Guaranteed Min Pension) | The progress against this is largely driven by HMRC response times.<br><br>Further reporting has been requested from the administration team to allow the specialist GMP team to review outstanding queries.<br><br>The current indication is that the reconciliation work should complete in late April 2020. |
| **c)** | Annual Report and Accounting | Preparation work is underway for the 2019/20 Financial Statements and officers are attending the relevant CIPFA training events to ensure the accounts reflect the latest guidance.<br><br>EY (Ernst & Young) undertook pre-audit testing in early January.<br><br>A report will be prepared for Regulation, Audit and Accounts Committee (RAAC) for their 23 March meeting which will cover the closedown and audit plan in preparation for the draft accounts being presented on 20 July 2020. |
| **d)** | GDPR | The County Council currently has a Data Sharing Agreements with the majority of the Fund employers. It is proposed that the need to complete the remaining Agreements are escalated within the pension's team with a target for that all Data Sharing Agreements are completed by 31 March 2020. |

| | | |
|---|---|---|
| **e)** | Investment Strategy | Hymans Robertson has been commissioned to assist the Pension Panel on their due diligence for a potential infrastructure and / or private debt funds. See Agenda Item15.<br><br>Officers are continuing to work with Link and the ACCESS Support Unit on sub-fund investment options for its liquid portfolio. See Agenda Item 17. |
| **f)** | Working collaboratively on the ACCESS Pool | The ACCESS Joint Committee met on 9 December 2019. See Agenda Item 16. |
| **g)** | ESG | The Panel received training on Environmental, Social and Governance considerations following its October 2019 meeting.<br><br>It is proposed that a special Pension Panel meeting is convened (date to be confirmed). |
| **h)** | Custodian transition | Complete. |
| **i)** | 2019 valuation preparation | The valuation project remains on track. Employer meetings were held in October and November 2019 to provide initial results and employer result schedules are now being provided. The Rates and Adjustment certificate must be published by 31 March 2020, with rates effective from 1 April. See Agenda Item 8. |
| **j)** | Work by the Scheme Advisory Board | Phase II of the Scheme Advisory Board's Good Governance work has been published, and initial comments invited by February 2020.<br><br>The Scheme Advisory Board has also published draft Guidance on Responsible Investment. See Agenda Item 16. |

## 3. Other Priorities Q3

<u>Competition and Mark Authority's Investigation into Investment Consultancy and Fiduciary Management</u>

3.1. The Pension Panel received an update on the Competition and Market Authority's investigation into the investment consultancy and fiduciary management market following a referral made by the Financial Conduct Authority (FCA) in September 2017.

3.2. The CMA published its final report in December 2018 and concluded that there was an adverse effect on competition in the investment consultancy and fiduciary management market. It found low levels of engagement by trustees when choosing and monitoring their investment consultant and low levels of tendering when first moving into fiduciary management.

3.3. The final report set out two remedies via the Order (published in October 2019)

- to tender for fiduciary management services when > 20% of the Scheme assets are delegated
- to set strategic objectives for providers of investment consultancy services.

3.4. As the duties that apply to trustees took effect from December 2019 the Pension Panel agreed to delegate the agreement of strategic objectives to the Director of Finance and Support Services, in consultation with the Chairman. Officers have sought legal advice and the objectives agreed are attached in Appendix 1.

Constitutional Changes relating to Pension Matters

3.5. Officers have undertaken a minor technical review of the Constitution around the County Council's pensions responsibilities. Minor changes to the terms of reference of two committees (Governance Committee and Performance and Finance Select Committee) and the Pensions Panel have been proposed to help clarify their roles and responsibilities on pensions matters.

3.6. This will be considered by Governance Committee when they meet on 20 January 2020.

**4. Risks**

4.1. The risk monitor is included in Appendix 2.

**5. Training**

5.1. A Training Strategy has been established to aid the Pension Panel and Pension Advisory Board members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.

5.2. Training completed by the Panel and appropriate future training events are shown in Appendix 3.

## Factors taken into account

### 6. Consultation

6.1. n/a

### 7. Risk Implications and Mitigations

| Risk | Mitigating Action (in place or planned) |
|---|---|
| Knowledge and understanding of the Board and Panel members may not comply with the requirement to have the | Develop, put in place and monitor training register with members of the Pension Panel and also the Board. The training can be collaborative between the Pension Board |

| Risk | Mitigating Action (in place or planned) |
| --- | --- |
| appropriate knowledge and understanding. | and the Pensions Panel to share learning and knowledge. |
| Pension Fund accounts not accurately maintained. | Plan to close down accounts with timetable. Ensure staff are trained appropriately. Maintain a good working relationship with the Actuary and auditors. Involvement with CIPFA resulting in best practice being adopted. Quality assurance of the accounts included within the timetable |
| The Pension Fund does not provide a clear and suitable investment strategy for Fund managers to follow | Strategic asset allocation adopted by the Fund Managers is considered by the Pensions Panel and the fund's independent adviser, with awareness of liquidity requirements. Fund managers' performance is monitored quarterly against the performance of the fund-specific benchmark and the returns assumed in the actuarial valuation. |
| Risk of poor governance if responsibilities are not clear. | Improved clarification by making the proposed amendments. |

**8. Other Options Considered**

8.1. n/a

**9. Equality Duty**

9.1. n/a

**10. Social Value**

10.1. n/a

**11. Crime and Disorder Act Implications**

11.1. n/a

**12. Human Rights Implications**

12.1. n/a

**Katharine Eberhart**
Director of Finance and Support Services

**Contact:** Rachel Wood, Pension Fund Strategist (0330 222 3387)

**Appendix 1** CMA Objectives

**Appendix 2** Risk Register

**Appendix 3** Training Register

**Background Document**

Governance Committee
Monday, 20th January, 2020 2.15 pm

**Appendix 1 A – CMA Objectives for Investment Consultants**

On 12 December 2018, the Competition and Markets Authority ("CMA") published its Final Decision Report following a review of the investment consulting and fiduciary management markets.  The Provisional Decision Report had been published on 18 July 2018.

The CMA has set out its final Order, including a requirement for pension scheme trustees and managers to set objectives for their investment consultants.

The CMA requirements stipulate that, from 10 December 2019, trustees (or equivalent bodies within the LGPS such as pensions committees) should set objectives for their investment consultants prior to receiving investment consultancy services from them.

The following objectives are set for each firm of investment consultants which the Panel engages to provide *ad hoc* investment consulting advice on specific matters from time to time (its "Investment Consultants").  Such matters may relate either to particular components of the Fund's investment portfolio or the portfolio as a whole depending on the instructions given.

The Panel will assess its Investment Consultants against these objectives on an annual basis and will review the objectives themselves triennially.  The period of assessment will be reviewed from time to time.

In order to support the Panel's assessment of its Investment Consultants, the Panel will consider periodically whether it would be appropriate and proportionate to seek the input of an independent investment consultant to help the Panel evaluate matters such as the Investment Consultants' proactivity, recommendations from the available opportunity set, quality of judgment and relative fee levels (etc).

This document has been prepared with a view to the Pensions Regulator's guidance on setting objectives for investment consultants, which was published on 28 November 2019.

| Fund Requirement | Investment Consultant Objective | Score |
|---|---|---|
| **Managing Liabilities** | | |
| • Maintain as nearly constant employer contribution rates as possible.<br>• Maintain affordability of the Fund to employers as far as this is reasonable.<br>• The Investment Strategy objective is to meet pension liabilities as they fall due, maximising returns while keeping risk within acceptable limits and contribute towards | Advise on a suitable investment strategy, and amendments to the strategy, either with a view to the whole portfolio or components of it as and when instructed to do so by or on behalf of the Panel from time to time, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding in accordance with the Fund's then current investment strategy statement prepared in | X/5 |

| | | |
|---|---|---|
| achieving and maintaining full funding.<br>• Reduce risk of deficits emerging to protect against increases in the secondary (deficit contribution) rate.<br>• Generate sufficient returns to keep the cost of new benefits accruing reasonable through an investment strategy that supports the Actuary's funding assumptions.<br>• Identify sources of income in order to generate cash as the Fund requires. | accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. | |
| | Deliver and assist in the implementation of a strategy (or a specific sub-strategy) that meets the risk and return requirements of the Fund and helps achieve long term sustainable and affordable contribution rates in accordance with the Fund's investment strategy statement. | X/5 |
| | Advise on changes to investment strategies where relevant, with the aim of managing risk relative to long-term funding objectives or capturing opportunities. | X/5 |
| | Reflect the investment beliefs of the Panel in the advice given, including considerations of the measurement of investment decisions and the timescales over which they should be assessed. | X/5 |
| | Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment. | X/5 |
| | | XX/25 |
| | | 50% |
| **Value for Money** | | |
| • Ensure cost efficient implementation of the Fund's investment strategy. | Advise on the cost efficient implementation of the Fund's investment strategy (or components of the overall portfolio) as required from time to time, considering different implementation approaches across/within the strategic asset classes and the evolution of the investment options of the ACCESS pool. | |
| | Advise on setting suitable investment benchmarks to assess and monitor the effectiveness of mandate implementation (including, where instructed to do so, in relation to costs and fees, and returns measured on a net of fees basis). | |
| | | XX/10 |

| | | |
|---|---|---|
| | | 20% |
| **Regulation and guidance** | | |
| • Ensure the Fund's approach reflects relevant regulatory and legislative requirements.<br>• Develop the Panel's Responsible Investment policy and ensure this is reflected in ongoing governance and decision making processes. | Ensure advice given complies with relevant pensions regulations, legislation and supporting guidance. | X/5 |
| | Assist in (i) the development of the Panel's policies and beliefs, including those in relation to Responsible Investment, (ii) the means by which the Fund's asset managers are incentivised to align their investment strategy and decisions with the Panel's policies and to make decisions based on assessments of medium- to long-term performance, and (iii) the Panel's assessment of how its remuneration and evaluation of those managers is aligned with such policies). | X/5 |
| | Ensure advice given reflects the Panel's own policies and beliefs, including those in relation to Responsible Investment considerations. | X/5 |
| | Support the Fund through research on climate risk such as scenario testing and the impact on funding and investments, where it is appropriate and feasible to do so. | X/5 |
| | | XX/20 |
| | | 15% |
| **Governance** | | |
| • Ensure the Fund's investment objectives are supported by an effective governance framework. | Provide relevant and timely advice, liaising with the Panel's other advisers as necessary and demonstrating appropriate levels of proactivity. | X/5 |
| | Ensure Panel members understand the implications of different strategic options, including associated risks, so that they can make decisions with sufficient knowledge and confidence. | X/5 |
| | Provide proportionate ongoing governance and be competitive in terms of costs relative to peer group. | X/5 |
| | | XX/15 |
| | | 15% |

**Appendix 1 B – CMA Objectives for Fund Adviser**

**CMA**

On 12 December 2018, the Competition and Markets Authority ("CMA") published its Final Decision Report following a review of the investment consulting and fiduciary management markets. The Provisional Decision Report had been published on 18 July 2018.

The CMA has set out its final Order, including a requirement for pension scheme trustees and managers to set objectives for their investment consultants.

The CMA requirements stipulate that, from 10 December 2019, trustees (or equivalent bodies within the LGPS such as pensions committees) should set objectives for their investment consultants prior to receiving investment consultancy services.

The following objectives are set for any individual consultant who the Panel engages to provide *ad hoc* investment consulting advice on specific matters from time to time (the "Investment Consultant"). Such matters may relate either to particular components of the Fund's investment portfolio or the portfolio as a whole depending on the instructions given.

The Panel will assess the Investment Consultant against these objectives on an annual basis and will review the objectives themselves triennially. The period of assessment will be reviewed from time to time.

In order to support the Panel's assessment of its Investment Consultants, the Panel will consider periodically whether it would be appropriate and proportionate to seek the input of an independent investment consultant to help the Panel evaluate matters such as the Investment Consultant's proactivity, recommendations from the available opportunity set, quality of judgment and relative fee levels (etc).

This document has been prepared with a view to the Pensions Regulator's guidance on setting objectives for investment consultants, which was published on 28 November 2019.

| Fund Requirement | Investment Consultant Objective | Score |
|---|---|---|
| **Managing Liabilities** | | |
| • Maintain as nearly constant employer contribution rates as possible.<br>• Maintain affordability of the Fund to employers as far as this is reasonable.<br>• The Investment Strategy objective is to meet pension liabilities as they fall due, maximising returns while keeping risk within acceptable limits and contribute towards | Provide guidance and challenge on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding in accordance with the Fund's then current investment strategy statement prepared in accordance with the Local Government Pension Scheme | X/5 |

| | | |
|---|---|---|
| achieving and maintaining full funding.<br>• Reduce risk of deficits emerging to protect against increases in the secondary (deficit contribution) rate.<br>• Generate sufficient returns to keep the cost of new benefits accruing reasonable through an investment strategy that supports the Actuary's funding assumptions.<br>• Identify sources of income in order to generate cash as the Fund requires. | (Management and Investment of Funds) Regulations 2016. | |
| | Assist the Panel and officers in the implementation of a strategy (or a specific sub-strategy) that meets the risk and return requirements of the Fund and helps achieve long term sustainable and affordable contribution rates in accordance with the Fund's investment strategy statement. | X/5 |
| | Provide guidance on changes to investment strategies where relevant, with the aim of managing risk relative to long-term funding objectives or capturing opportunities. | X/5 |
| | Reflect the investment beliefs of the Panel in the advice given, including considerations of the measurement of investment decisions and the timescales over which they should be assessed. | X/5 |
| | Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment. | X/5 |
| | | XX/25 |
| | | 50% |
| **Value for Money** | | |
| • Ensure cost efficient implementation of the Fund's investment strategy. | Provide guidance and challenge on the cost efficient implementation of the Fund's investment strategy as required. | X/5 |
| | Assist the Panel and officers in consideration of suitable investment benchmarks to assess and monitor the effectiveness of mandate implementation. | X/5 |
| | | XX/10 |
| | | 20% |
| **Regulation and guidance** | | |
| • Ensure the Fund's approach reflects relevant regulatory and legislative requirements.<br>• Develop the Panel's Responsible Investment policy and ensure this is reflected in ongoing governance and decision making processes. | Ensure advice given complies with relevant pensions regulations, legislation and supporting guidance. | X/5 |
| | Assist in and challenge the development of the Panel's policies and beliefs, including those in relation to Responsible Investment. | X/5 |

| | | |
|---|---|---|
| | Ensure advice given complies with relevant pensions regulations, legislation and supporting guidance. | X/5 |
| | | XX/15 |
| | | 15% |
| **Governance** | | |
| • Ensure the Fund's investment objectives are supported by an effective governance framework. | Provide relevant and timely advice, liaising with officers as necessary and demonstrating appropriate levels of proactivity | X/5 |
| | Provide guidance to the Panel on the implications of different strategic options, including associated risks, so that they can make decisions with sufficient knowledge and confidence | X/5 |
| | Provide proportionate ongoing governance and be competitive in terms of costs relative to peer group | X/5 |
| | | XX/15 |
| | | 15% |

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**Appendix 2 – Risk Register**

| Risk Theme | Action | RAG |
|---|---|---|
| ***NEW***<br><br>Political pressure results in change to investment strategy due to ESG factors resulting in the Fund being required to restrict Fund Manager investments and/or the Fund being challenged on fiduciary duty. | Ensure active engagement by Fund Managers with companies in all areas.<br><br>Regular dialogue with Fund Managers regarding reasoning behind the stock being held.<br><br>Keep up to date with Scheme Advisory Board and Government guidance. | |
| Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy | Prudent assumptions adopted by the Fund Actuary.<br><br>Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement.<br><br>Regularly review investment performance and funding levels. | |
| Insufficient resources to comply with the Administering Authority's Regulatory responsibilities. | Develop and monitor Business Plan on a regular basis.<br><br>Ensure service contracts are clearly specified and obligations met. | |
| Poor quality data resulting in error and misstatement. | Develop and implement a Data Improvement Plan.<br><br>Maintain robust accounting records. | |
| Officer, Panel and Board knowledge and understanding resulting in poor decision making and disengagement on key issues. | Develop, implement and monitor a Training Strategy. | |
| Performance of the Fund's assets creates volatility and pressure on employer contribution rates. | Monitor, maintain and review the Investment Strategy Statement and Funding Strategy Statement.<br><br>Clear Investment Management Agreements in place.<br><br>Regularly review investment performance and funding levels.<br><br>Consideration of Environmental, Social and Governance issues on the performance of the portfolio. | |

| | | |
|---|---|---|
| The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance. | Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level. | |
| Failure to secure value for money through managing contracts with third parties | Strong contract management<br><br>Compliance with procurement requirement and standing orders for provision of services to the Fund. | |
| Political environment (locally or nationally) impact on investment markets and legislative requirements. | Work closely with investment managers, other suppliers and advisers to understand potential impacts and responses.<br><br>Develop, implement and monitor a Training Strategy. | |
| Conflict of interest for members and employers | Clearly defined roles and responsibilities for those working for the Pension Fund.<br><br>Maintenance of Conflict of Interest policy and register by the County Council. | |
| Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations. | Clear Admission Agreements in place.<br><br>Guidance published and reviewed relating to the Scheme requirements.<br><br>Proactive engagement with employers. | |
| Cyber crime resulting in personal data for members being accessed fraudulently. | Strong IT environment for administration system and web-based Portals. | |

**Closed**

| Risk Theme | Action | RAG |
|---|---|---|
| Change to payroll and pension admin provider resulting in incomplete or inaccurate data being transferred and stakeholders not adopting new requirements. | Well defined project which is robustly managed including appropriate due diligence and testing throughout the project.<br><br>Clear communication with stakeholders during project and as part of business as usual. | |

## Appendix 3 – Training Register

| Training | Trainer | Date | Financial Year | No. of attendees | David Bradford | Joy Dennis | Brian Donnelly | Roger Elkins | Jeremy Hunt | Nigel Jupp | Judith Taylor | Deborah Urquhart | James Walsh |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LGA Governance Conference | LGA | 17-18 January 2019 | 2018/19 | 1 | | | | | | | ✓ | | |
| LAPF Strategic Investment Forum | LAPF | 07 February 2019 | 2018/19 | 3 | | ✓ | | | | ✓ | | | ✓ |
| Baillie Gifford: Global Alpha Investment Forum | Baillie Gifford | 28 February 2019 | 2018/19 | 2 | ✓ | | | | ✓ | | | | |
| Club Vita Training on Longevity | Hymans | 28 January 2019 | 2018/19 | 8 | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Local Authority Governance | PLSA | 13-15 May 2019 | 2019/20 | 1 | | ✓ | | | | | | | |
| Financial Statements 2018/19 | WSCC | 13 June 2019 | 2019/20 | 6 | | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Introduction to the LGPS | CIPFA | 25 September 2019 | 2019/20 | 1 | | | | | | ✓ | | | |
| ACCESS Investor Day | Link | 16 October 2019 | 2019/20 | 3 | ✓ | | | | | ✓ | ✓ | | |
| Baillie Gifford: LGPS training & Investment Seminar | Baillie Gifford | 9-10 October 2019 | 2019/20 | 6 | ✓ | ✓ | | | ✓ | ✓ | ✓ | | ✓ |
| ESG training | Eversheds, Hymans & UBS | 25 October 2019 | 2019/20 | 8 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Annual Pensions Conference | CIPFA | 13 November 2019 | 2019/20 | 3 | | ✓ | ✓ | | | | | ✓ | |
| Private Debt Workshop | Partners Group | 20 November 2019 | 2019/20 | 2 | | | ✓ | ✓ | | | | | |
| 2020 Vision : looking a year ahead into the Global market | Aberdeen Standard Investments | 22 January 2019 | 2019/20 | 1 | ✓ | | | | | | | | |
| Annual LGPS Governance Conference | LGA | 23-24 January 2020 | 2019/20 | 2 | | | | | | ✓ | ✓ | | |
| Aberdeen Global Investment Forum 2020 | Aberdeen Standard Investments | 06 February 2020 | 2019/20 | 3 | | ✓ | | | ✓ | ✓ | | | |

Upcoming training –

| Training Offered | Event Date | Location |
|---|---|---|
| LAPF Strategic Investment Forum | 06 February 2020 | London |
| LGC Investment LGPS Seminar | 27-28 Feb 2020 | Cheshire |
| PLSA Investment Conference | 11-13 Mar 2020 | Edinburgh |
| PLSA Local Authority Conference 2020 | 18-20 May 2020 | Gloucestershire |

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| Pension Panel | |
|---|---|
| **27 January 2020** | **Part I** |
| **Pension Administration Performance** | |
| **Report by Director of Finance and Support Services** | |

**Summary**

Hampshire Pension Services provide Pension Administration, on behalf of West Sussex County Council, to the 80,031 active, deferred and pensioner members participating in the Local Government Pension Scheme.

An Administration Strategy has been agreed and is monitored and performance has improved since the Panel met in October. Legacy issues are being worked through and are used to inform a data improvement plan.

Contribution Monitor for the year to date is included as Appendix 2 and provides details of the Scheme Employers performance regarding the monthly contribution payments.

**Recommendation**

That the update on the Administration Performance is noted.

## 1. Background

1.1. Hampshire County Council provides the Pension Administration Service for West Sussex County Council. The administration team are based in Winchester and the County Council work closely with Hampshire County Council as our Pension Administration Partner.

1.2. The Pension Panel has a key objective within its Business Plan to 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.

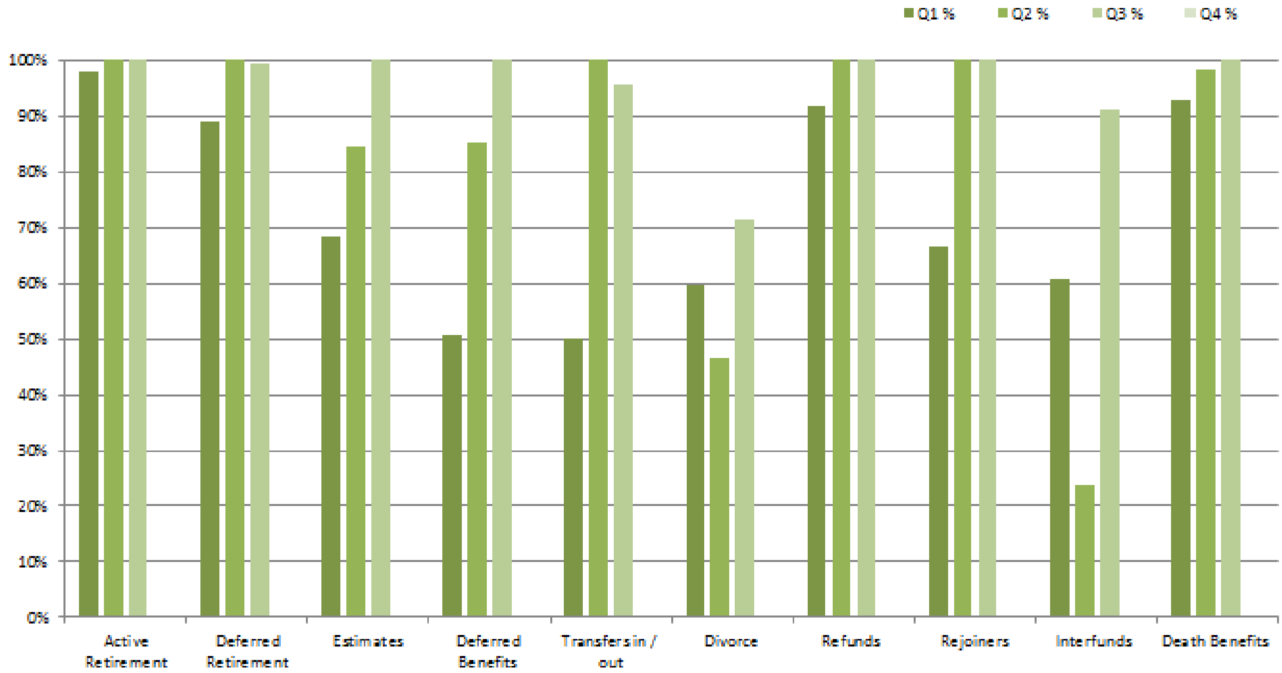
1.3. The table below summarises membership within the Scheme.

| | Membership as at quarter end | | |
|---|---|---|---|
| | **30/06** | **30/09** | **31/12** |
| **Active** | 29,439 | 29,807 | 30,021 |
| **Deferred** | 27,844 | 28,119 | 28,585 |
| **Pensioners** | 17,864 | 21,284 | 21,425 |
| **Total** | **75,147** | **79,210** | **80,031** |

Note: The membership movements may vary more than expected as the team complete backlog and cleanse activities

## 2. Performance

2.1. The Pension Panel have agreed an Administration Strategy which sets out performance expectations for employers and the Administering Authority. The current performance against service standards for key processes (1 July to 31 Dec) are illustrated below with date for the latest quarter and year to date shown in the table. Appendix 1 provides the full year performance.




| Case Type | Quarter 3 | | Year to Date | |
|---|---|---|---|---|
| | Total Cases | Completed on Time (%) | Total Cases | Completed on Time (%) |
| **Active Retirement** | 99 | 100% | 322 | 99% |
| **Deferred Retirement** | 153 | 99% | 529 | 96% |
| **Estimates** | 324 | 100% | 1,160 | 83% |
| **Deferred Benefits** | 824 | 100% | 1,909 | 87% |
| **Transfers In/Out** | 92 | 96% | 123 | 89% |
| **Divorce** | 81 | 72% | 166 | 63% |
| **Refunds** | 179 | 100% | 439 | 98% |
| **Rejoiners** | 99 | 100% | 186 | 94% |
| **Interfunds** | 101 | 91% | 172 | 70% |
| **Death Benefits** | 126 | 100% | 360 | 97% |
| **Total** | **2,078** | | **5,366** | |

2.2. It should be noted:

a. The team have continued to ensure that processes resulting in payments to members or beneficiaries are prioritised.

b. Some work resulting from legacy issues has been ring-fenced to ensure that performance on new work items meet the SLA targets.

c. As was expected quarter 3 saw a continued high volume of leavers due to the end of the school year. The timescales for completing this work is included within the Deferred Benefits performance, which all cases were completed within the service level agreement.

## 3. Contributions

3.1. All LGPS Contributions are expected to be received by the Fund on the 19th of the Month or 22nd if the payment is being made electronically. As part of this monthly process a Contribution Monitor is maintained this can be found as Appendix 2. The Fund has a clear escalation procedure if the situation were to arise where an Employer was consistently making late payment.

## 4. Member Portal Access

4.1. LGPS members can register for a pensions account so that they can see their annual benefit statements online, as well as access and update their personal details. Pensioner members are able to view their payslips and P60s. The table below shows current registrations:

| | Number | Number | % of population |
|---|---|---|---|
| | **30/09** | **31/12** | |
| **Active** | 6,184 | 7,334 | 24.43% |
| **Deferred** | 2,131 | 3,257 | 11.39% |
| **Pensioner** | 1,093 | 1,288 | 6.01% |
| **Total** | **9,408** | **11,879** | **14.84%** |

## 5. Data Improvement Plan

5.1. The Pension Fund has been aware of the need to undertake some data improvement work once the transfer had been completed with Hampshire.

5.2. A data improvement plan has been agreed between the Pension Fund and its administrators based on legacy matters identified following the transfer and other data scoring. There are a number of work items required relating to:

- How the data is held on the two administration system, or the Fund's accounting system

- The completeness of some member records (including the necessity of keeping paper files for some members)

- Administrative tasks not being applied or completed

5.3. All work has been reviewed and prioritised and given a completion date of 31 March 2020, 30 June 2020 or 31 October 2020 deadline.

5.4. There will be a charge by the administration team to complete a number of the work items. Other elements will be covered by Hampshire as part of their ongoing work, or resourced by the West Sussex team.

**6. Breach Reporting**

6.1. There are a number of statutory requirements within the Local Government Pension Scheme (LGPS) for which there is a statutory duty to report to the Pensions Regulator if a material breach occurs.

6.2. The materiality of the breach with regard to the production of Annual Benefit Statements is under investigation.

**7. Pension Scams**

7.1. There have been an increased risk of pension savers being persuaded to transfer their entire pension savings, or to release funds from it, by scammers making attractive-sounding promises they have no intention of keeping. This follows reforms offering greater flexibility in the way that individuals aged 55 and over can access their defined contribution (DC) pensions. As the LGPS is a public sector defined benefit Scheme this 'Freedom of Choice' reform does not apply to it directly. However members do have the right to transfer their pension rights out of the LGPS to a DC arrangement prior to their retirement.

7.2. The Pension Ombudsman has recently upheld a case (Ref PO-21489) relating to a scam where a LGPS Administering Authority (Hampshire County Council) was required to reinstate the member's pension due to maladministration (on a case which dates back to 2013). In response the Local Government Association (LGA) updated the standard transfer forms, which have been adopted by the administration team.

**8. McCloud**

8.1. Whilst there has not been a remedy for the McCloud and Sargeant judegement the County Council is working with the administration team as the issues around any potential remedy become clearer, including resourcing. This has been informed by the first tribunal judgments providing a remedy for the Police Pension Scheme and Firefighters Schemes.

**Factors taken into account**

## 9. Consultation

9.1. n/a

## 10. Risk Implications and Mitigations

| Risk | Mitigating Action (in place or planned) |
| --- | --- |
| Inaccurate and/or incomplete data retained by the Pension Fund. | All employers participating in the scheme are provided with Administration Guide and Employer Guide which sets out their roles and responsibilities whilst participating in the Scheme and understand what member data are required and the process for supplying it. Liaise with Hampshire Pension Services regarding the quality of data and how this can be improved. Liaise with the Actuary to ensure expectations are understood. |
| Employers either don't pay contributions, pay incorrect amount or don't provide required information | Clear employer guide in place setting out responsibility of employers regarding provision of information and contributions. Regular monitoring and reconciliation of contribution payments received with clear escalation process. Liaise with Actuary to ensure he is aware of any issues. |
| Failure to comply with changes to LGPS Regulations and/or Inland Revenue Rules | All consultation papers issued by the DCLG, Revenue & Customs, and other bodies are commented on where appropriate. Officers to review all relevant regulation changes. Liaise with professional advisors and Hampshire Pension Services as required. |

## 11. Other Options Considered

11.1. n/a

## 12. Equality Duty

12.1. n/a

## 13. Social Value

13.1. n/a

## 14. Crime and Disorder Act Implications

14.1. n/a

## 15. Human Rights Implications

15.1. n/a

**Katharine Eberhart**
Director of Finance and Support Services

**Contact:** Rachel Wood, Pension Fund Strategist (0330 222 3387)

**Appendix 1 –** Administration Performance
**Appendix 2 –** Contribution Monitor

**Appendix 1**

Administration Performance
1 April 2019 – 31 December 2019

The table below shows performance against the relevant targets for the three months during the quarter.

The table 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.
- Response times to enquiries made by members (which has a five working day expectation, but with a requirement to keep members or employers informed if it will take longer to resolve) or change of member details.

| | April | | May | | June | | Quarter 1 | |
|---|---|---|---|---|---|---|---|---|
| | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** |
| **Active Retirement** | 33 | 100.00% | 29 | 100.00% | 51 | 96.10% | 113 | 98.20% |
| **Deferred Retirement** | 35 | 94.30% | 52 | 100.00% | 79 | 79.80% | 166 | 89.20% |
| **Estimates** | 124 | 99.20% | 144 | 39.60% | 149 | 70.50% | 417 | 68.30% |
| **Deferred Benefits** | 17 | 100.00% | 115 | 66.10% | 142 | 32.40% | 274 | 50.70% |
| **Transfers in / out** | 2 | 50.00% | 6 | 50.00% | 10 | 50.00% | 18 | 50.00% |
| **Divorce** | 11 | 90.90% | 35 | 51.40% | 11 | 54.60% | 57 | 59.70% |
| **Refunds** | 42 | 100.00% | 40 | 92.50% | 18 | 72.20% | 100 | 92.00% |
| **Rejoiners** | 3 | 66.70% | 12 | 58.30% | 21 | 71.40% | 36 | 66.70% |
| **Interfunds** | 16 | 93.80% | 2 | 0.00% | 15 | 33.30% | 33 | 60.60% |
| **Death Benefits** | 27 | 100.00% | 28 | 100.00% | 44 | 84.10% | 99 | 92.90% |
| **Total** | **310** | | **463** | | **540** | | **1,313** | |

| | July | | August | | September | | Quarter 2 | |
|---|---|---|---|---|---|---|---|---|
| | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Active Retirement** | 21 | 100.00% | 41 | 100.00% | 48 | 100.00% | 110 | 100.00% |
| **Deferred Retirement** | 77 | 100.00% | 81 | 100.00% | 52 | 100.00% | 210 | 100.00% |
| **Estimates** | 186 | 66.13% | 130 | 99.23% | 103 | 93.20% | 419 | 84.73% |
| **Deferred Benefits** | 143 | 35.66% | 139 | 81.29% | 529 | 53.50% | 811 | 85.45% |
| **Transfers in / out** | 1 | 100.00% | 7 | 100.00% | 5 | 80.00% | 13 | 100.00% |
| **Divorce** | 18 | 38.89% | 5 | 20.00% | 5 | 40.00% | 28 | 46.43% |
| **Refunds** | 58 | 100.00% | 31 | 100.00% | 71 | 98.59% | 160 | 100.00% |
| **Rejoiners** | 10 | 100.00% | 14 | 100.00% | 27 | 100.00% | 51 | 100.00% |
| **Interfunds** | 22 | 18.18% | 13 | 15.38% | 3 | 100.00% | 38 | 23.68% |
| **Death Benefits** | 40 | 100.00% | 50 | 96.00% | 45 | 100.00% | 135 | 98.52% |
| **Total** | **576** | | **511** | | **888** | | **1,975** | |

| | **October** | | **November** | | **December** | | **Quarter 3** | |
|---|---|---|---|---|---|---|---|---|
| | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** | **Total Cases** | **% Completed on Time** |
| **Active Retirement** | 39 | 100.00% | 26 | 100.00% | 34 | 100.00% | 99 | 100.00% |
| **Deferred Retirement** | 45 | 100.00% | 57 | 98.25% | 51 | 100.00% | 153 | 99.35% |
| **Estimates** | 143 | 100.00% | 100 | 100.00% | 81 | 100.00% | 324 | 100.00% |
| **Deferred Benefits** | 273 | 100.00% | 240 | 100.00% | 311 | 100.00% | 824 | 100.00% |
| **Transfers in / out** | 28 | 92.86% | 35 | 94.29% | 29 | 100.00% | 92 | 95.65% |
| **Divorce** | 40 | 42.50% | 21 | 100.00% | 20 | 100.00% | 81 | 71.60% |
| **Refunds** | 66 | 100.00% | 74 | 100.00% | 39 | 100.00% | 179 | 100.00% |
| **Rejoiners** | 25 | 100.00% | 46 | 100.00% | 28 | 100.00% | 99 | 100.00% |
| **Interfunds** | 26 | 65.38% | 32 | 100.00% | 43 | 86.05% | 101 | 91.09% |
| **Death Benefits** | 51 | 100.00% | 55 | 100.00% | 20 | 100.00% | 126 | 100.00% |
| **Total** | **736** | | **686** | | **656** | | **2,078** | |

The table below shows outstanding work as of 31 December 2019.

The time outstanding reflects the time from date of receipt of the initiating request, so includes time whilst cases are on hold pending further information;

**Time Outstanding**

| Type of Case | 0-5 days | 6-10 days | 11-15 days | 16-20 days | 21-30 days | 31+ days | Total |
|---|---|---|---|---|---|---|---|
| **Active Retirement** | 6 | 13 | 0 | 0 | 0 | 0 | 19 |
| **Deferred Retirement** | 5 | 9 | 9 | 2 | 0 | 0 | 25 |
| **Estimates** | 28 | 38 | 24 | 7 | 4 | 4 | 105 |
| **Deferred Benefits** | 54 | 72 | 116 | 48 | 93 | 794 | 1177 |
| **Transfers In & Out** | 3 | 3 | 4 | 1 | 1 | 8 | 20 |
| **Divorce** | 4 | 2 | 1 | 0 | 1 | 1 | 9 |
| **Refunds** | 7 | 10 | 0 | 0 | 0 | 2 | 19 |
| **Rejoiners** | 8 | 8 | 2 | 3 | 0 | 4 | 25 |
| **Interfunds** | 4 | 12 | 14 | 12 | 10 | 135 | 187 |
| **Death Benefits** | 6 | 9 | 1 | 0 | 5 | 3 | 24 |
| **GRAND TOTAL** | **125** | **176** | **171** | **73** | **114** | **951** | **1,610** |

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**Appendix 2**

Contributions Monitor
01 April 2019 – 30 November 2019

The table below provides a monthly review of the Scheme Employers performance in respect of their statutory responsibilities when paying their contributions to the Fund:

| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | YTD Average |
|---|---|---|---|---|---|---|---|---|---|
| Late | 1 | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 0.5 |
| On time | 191 | 190 | 190 | 192 | 191 | 191 | 192 | 193 | 191.3 |
| **Number of Active Employers** | 192 | 191 | 190 | 192 | 192 | 192 | 192 | 193 | 191.8 |
| % Late of Active Employers | 0.52% | 0.52% | 0.00% | 0.00% | 0.52% | 0.52% | 0.00% | 0.00% | 0.26% |
| Average Days Late | 29.00 | 17.00 | 0.00 | 0.00 | 9.00 | 15.00 | 0.00 | 0.00 | 8.8 |
| Total Amount Overdue (£) | 546 | 188 | 0 | 0 | 28,081 | 645 | 0 | 0 | 3,682.5 |
| Total Contributions (£'000) | 10,756 | 10,776 | 10,821 | 10,863 | 10,745 | 10,761 | 10,957 | 10,954 | 10,829 |
| % Late of total contributions | 0.01% | 0.00% | 0.00% | 0.00% | 0.26% | 0.01% | 0.00% | 0.00% | 0.03% |

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| Pension Panel | |
| --- | --- |
| **27 January 2020** | **Part I** |
| **Actuarial Valuation** | |
| **Report by Director of Finance and Support Services** | |


## Summary

The Pension Fund has nearly completed its triennial valuation.

The Valuation process seeks to ensure the long-term solvency of the Fund through ensuring that it holds sufficient assets to be able to pay all its members benefits and calculates employer liabilities – and their contribution.

The Panel have been advised of a number of factors which may impact the outcome or the period that rates need to be set. Each of these matters remains unresolved and the Actuary has therefore calculated Fund and employer liabilities on the known benefit structure at 31 March 2019. The Actuary has completed his calculation of the whole Fund position (112%).

Since the Panel met, further work is required to calculate the position for individual employers.


## Recommendation(s)

(1) The Panel agree the current version of the Funding Strategy Statement for publication by 31 March 2020, unless amended.

(2) The Panel agree that any further amendments to the Funding Strategy Statement can be agreed by the Director of Finance and Support Services, in consultation with the Chairman to allow the Statement to be published by 31 March 2020.

## Proposal

### 1. Background and Context

1.1 The Fund has nearly completed its triennial valuation. In the absence of any further guidance this will set employer contributions from 1 April 2020 until 31 March 2023.

1.2 A number of developments which provide significant uncertainty remain (e.g. the McCloud judgement, HM Treasury's cost control mechanism and the Scheme Advisory Board's (SAB) cost control mechanism and the outcome of several consultations or Government decisions, including a consultation on the frequency of the Local Government Pension Scheme valuation cycles). Whilst the Actuary has reviewed the level of additional prudence in the discount rate in the context of these outstanding matters, the valuation has been completed on the basis of the known benefit structure as at 31 March 2019.

## 2. Timetable

2.1 The table below shows the progress against the key valuation milestones.

| Milestone | Date | Status |
|---|---|---|
| Data Submission | 12/08/2019 | Complete |
| Data Validation | 12/08/2019 | Complete |
| Resolution of data queries | 12/08/2019 | Complete |
| Clean data sign off | 30/08/2019 | Complete |
| Compass (Asset Liability) Modelling | 02/09/2019 | Progressing |
| Provision of initial Whole Fund results | 04/10/2019 | Complete |
| Provision of initial individual employer results | 04/10/2019 | Progressing |
| Finalisation of employer results | 29/02/2019 | |
| Final valuation report (Regulatory Req.) | 31/03/2020 | |

## 3. Amendments to the Funding Strategy Statement

3.1 The Panel received an update on the Funding Strategy Statement when they met in October 2019. The purpose of the Funding Strategy Statement is to set out the Administering Authority's approach to funding its liabilities and how employer liabilities are measured (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities.

3.2 Following the Actuary's work on individual employer results further amendments have been made to the Funding Strategy Statement and the full document has been shared with employers for their comments (included in Appendix 1). This reflects:

- Drafting amended to reflect McCloud movement and reserving of additional prudence given the uncertainty.
- Reference to asset and liabilities remaining with the Local Authority / Police (ceding employer) for pass through arrangements – including on exit and the alignment of likelihood and time horizon for contribution modelling for pass through employers with their ceding employer to manage short term market conditions putting pressure on rates.
- Inclusion of exception to reduce the primary rate (future service rate) where an employer is exceptionally well funded (>120%). This is to prevent a surplus building up – but acknowledges the need for a cushion.
- Addition of specific reference to prepayment opportunity for some employers and timescales associated.
- Addition of specific wording for cessation assessment.

## 4. McCloud

4.1. A paper covering how contribution rates, opening positions, cessations transfers and accounting reports will be impacted by the McCloud judgement has been prepared by the Actuary. This will be considered by the Director of Finance and Support Services.

## 5. Employer covenant work

5.1. PwC was commissioned to carry out high level employer covenant assessments as part of the valuation. The initial results of these assessments were presented to officers in November 2019. Further work is being carried out as final positions become available from the Actuary.

5.2. PwC has been asked to carry out a more detailed analysis relating to one employer to assist the Fund in deciding the contributions and any security that might be required from the employer.

## 6. Compass (Asset Liability) Modelling

6.1. The Actuary has been commissioned to model the Fund's investment and contribution strategies to ensure that they remain appropriate and highlighting issues for consideration in the future. Whilst it was anticipated that the outcomes would be presented to the Pension Panel at this meeting the work has been delayed pending further consideration by the Pension Panel on their income asset allocation and the growth and protection mandates.

# Factors taken into account

## 7. Consultation

7.1. Employers within the Fund have been consulted throughout the process.

## 8. Risk Implications and Mitigations

| Risk | Mitigating Action (in place or planned) |
|---|---|
| Additional time and cost from the Actuary when conducting the valuation. | Continue to work with the Actuary. Liaise with Hampshire Pension Services regarding the Data Improvement Plan. |
| Inaccurate and/or incomplete data retained by the Pension Fund. | All employers participating in the scheme are provided with Administration Guide and Employer Guide which sets out their roles and responsibilities whilst participating in the Scheme and understand what member data are required and the process for supplying it. Liaise with Hampshire Pension Services regarding the quality of data and how this can be improved. Liaise with the Actuary to ensure expectations are understood. |

## 9. Other Options Considered

9.1. N/A

## 10. Equality Duty

10.1. N/A

## 11. Social Value

11.1. N/A

## 12. Crime and Disorder Act Implications

12.1. N/A

## 13. Human Rights Implications

13.1. N/A

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**Appendices**

**Appendix 1** Funding Strategy Statement showing amendments

**Background Papers:** None

# Funding Strategy Statement

## Introduction and Purpose

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

- Employees' benefits are guaranteed by the LGPS Regulations.
- Employees' contributions are fixed in the same Regulations, at a level which covers only part of the cost of the benefits.
- Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee.
- Employers need to pay the balance of the cost of delivering the benefits to members and their dependents.

The purpose of the FSS is to summarise the Administering Authority's approach to funding its liabilities. This includes reference to the Fund's other policies but it should be noted that it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework that includes:

- The LGPS Regulations.[1]
- 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.[2]
- Actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service.
- The Fund's Investment Strategy Statement.[3]

The FSS has been prepared by the Administering Authority in collaboration with its actuary, Hymans Robertson LLP, ~~[~~and after consultation with the Fund's employers. It has been adopted for the purpose of the 2019 Actuarial Valuation and is effective from 1 April ~~2019].~~2020.[4]



[1] https://www.lgpsregs.org/
[2] https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/
[3] https://www.westsussex.gov.uk/about-the-council/pensions/local-government-pension-scheme-lgps/pension-fund/
[4] Consultation to be launched (June 2019). Feedback will inform any revisions.

# Important Note

This Funding Strategy Statement (FSS) has been written during a period of significant uncertainty caused by:

- The McCloud case (where the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the recent pension reforms amounts to unlawful discrimination – directly on grounds of age and indirectly on other grounds). The Supreme Court denied the government permission to appeal the Court's judgement in June 2019. The government is required to work with the Employment Tribunal to how the discrimination will be remedied for all the main public service pension schemes.[5]
- The "HM Treasury cost control mechanism" (also introduced as part of the recent pension reforms) being engaged, which may trigger changes to LGPS benefits (currently paused in light of the McCloud case).
- The "Scheme Advisory Board (SAB) cost control mechanism" (also introduced as part of the recent pension reforms) being engaged, which may trigger changes to LGPS benefits and member contributions (also paused in light of the McCloud case).
- ~~The Government's decision to appeal the McCloud case.~~

At present there are no timescales for the ~~outcome of this appeal~~changes to the Schemes to be agreed or the resulting benefit changes which will largely depend on the outcome.

~~The~~ In line with advice from MHCLG and the Scheme Advisory Board (SAB) the Administering Authority has ~~therefore proceeded~~valued liabilities based on the ~~assumption that the scheme will not change~~Scheme presently in ~~April~~ place. ~~2019.~~ As a result:

- Employers should collect employee contributions on the basis of current Regulations
- The 2019 valuations will proceed on the basis of the current benefit and member contribution structure for the purposes of valuing the liabilities.

~~As~~However, MHCLG and the SAB have also indicated that the Fund should consider the risk of the benefits being changed as a result of McCloud when ~~there are developments, there will need to be reflection on how best to incorporate these into the 2019 Actuarial Valuation employer contribution~~ setting ~~process.~~

- ~~If the Government is sucessful in its appeal:~~
  - ~~there will be not change to accrued benefits~~
  - ~~changes to future employee benefits are likely to be implemeneted as part of the "cost control mechanism" (applicable from 1 April 2019)~~
  - employer contribution rates ~~are likely to increase as a result.~~
- ~~If the Government is not sucessful in its appeal:~~
  - . The Actuary has reserved additional prudence within the ~~court will require steps to be taken to compensate employees who were transferred to the new~~

[5] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf

~~Scheme, potentially requiring retrospective changes (from 1 April 2014) for benefits and member contributions~~

- ~~the SAB and HM Treasury will then review their respective "cost control mechanisms", which may or may not result in future employee benefit changes (from 1 April 2019)~~

~~it is possible that employer contribution rates could increase as a result.~~discount rate to reflect this uncertainty.

In addition to the above, the Fund is currently awaiting the outcome of several consultations or Government decisions which may affect the LGPS and the FSS, including but not limited to:

- The outcome of the Government's Fair Deal II Consultation, which may introduce new classes of employer into the LGPS.
- A further Consultation on Exit Credits.
- Rectification of issues associated with Guaranteed Minimum Pension Indexation and Equalisation.
- A review of the valuation cycle for the LGPS to align with that of the unfunded schemes (quadrennially).
- ~~Revised CIPFA Guidance for the FSS.~~

The Administering Authority may revisit the FSS as and when the outcomes of the above consultations (and resulting legislative changes), decisions and guidance are known, and will seek wider consultation on any material changes in approach as a result of these changes.

# The Aims and Purpose of the Pension Fund

The Administering Authority runs the Fund, ensuring 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 dependents (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The FSS focuses on how the Administering Authority measures employer liabilities (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities in order to achieve the Administering Authority's funding aims of affordability, prudence and transparency. These aims are described in more detail below:

| Aim | How this is achieved |
|---|---|
| **Affordability and stability of employer contributions** | Through 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.<br>By reflecting the different characteristics of different employers in determining contribution rates and understanding how each employer can best meet its own liabilities over future years<br>By using reasonable measures to reduce funding risks on employer cessations. |
| **Prudence in the funding basis** | By using a prudent long term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. |
| **Transparency of processes** | By consulting and publishing this FSS.<br>By adopting a consistent application of the FSS. |

All employers are responsible for their own section of the Fund, tracked by the actuary.

# Setting Employer Contribution Rates

The way in which the Administering Authority calculates and sets employer contribution rates will vary for different employers to ensure that each employer pays for their own liabilities and the assets meet (as closely as possible) the value of its liabilities when its participation ends. In doing so, the Administering Authority recognises the balance which needs to be struck between its need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately.

Employer contributions are normally made up of two elements:

1. The estimated cost of new benefits being earned by members year to year, after deducting member's contributions and adding an allowance for administration expenses, referred to as the "primary contribution rate"; plus
2. Any adjustment to the primary rate to reflect the individual circumstances of each employer is referred to as the "secondary contribution rate" which reflects any adjustments required to meet the Fund's desire for stable contribution rates and to recover any differences between the assets built up to date and the value of past service benefits.

The following sections describe how the Administering Authority sets employer contribution rates.

# Funding Target Basis, Time Horizon and Probability

**General Principles**

The Administering Authority groups employers with similar characteristics when determining employer contributions. Examples include funding sources, whether there is anyone guaranteeing an employer's participation in the Fund and whether an employer will eventually leave the Scheme. Examples of the broad categories in which employers are grouped include:

- Scheduled Bodies, Designated Employers and Academies (for the period that they have a guarantee from the Department for Education) are generally open to new entrants, are considered to be long term and have reliable funding sources.
- Admission Bodies on pass through arrangements where the assets and liabilities remain with the Local Authority, Police, other Scheduled Body or a Designated Employer.
- Admission Bodies with a guarantee from a Local Authority, Police, other Scheduled Body or a Designated Employer or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority has less insight into their funding sources.
- Admission Body with no guarantee from a Local Authority, Police, other Scheduled Body or a 'Designated Employer' or appropriate security are generally closed to new entrants, are considered to be shorter term and the Administering Authority may have no insight into their funding sources.

This categorisation determines an employers funding target, the period over which this funding target should be met and the certainty required that the employer will achieve their funding target.

Please note, the above are examples of the broad categories, in practice, there are a range of employers with varying categorisations as described through this Funding Strategy Statement.

Funding Target

The Administering Authority seeks to ensure the long-term solvency of the Fund through ensuring that it holds sufficient assets to be able to pay all its members benefits. It therefore needs to ensure that the assets held on behalf of each employer meet (as closely as possible) the value of benefits built up to date for the employer's employees and ex-employees (the liabilities) i.e. a funding position of 100%.

However, different assumptions will be applied to calculate the value placed by the actuary on the benefits built up to date (and for future benefits).

- If an employer is considered higher risk or approaching the end of its participation in the Fund or is considered higher risk, then the funding target may be set on more prudent assumptions referred to as a "gilts cessation basis" using a discount rate based on expected returns on the lowest risk investments held (government bonds) without applying a margin for greater returns from equity-type investments held.
- For other employers the actuary will calculate expected returns on the lowest risk investments held (government bonds) plus a margin to allow for the greater return

that is expected to be generated from equity-type investments held. This is referred to as the "ongoing funding basis".

- Where an employer is approaching the end of its participation in the Fund, but this is still more than ~~[~~4~~]~~ years away, the actuary may move the discount rate towards a gilts cessation basis gradually over time.

The time horizon over which the employer should achieve its funding target

Each employer in the Fund will have a time period over which they need to achieve their funding target.

Employers may be given a lower time horizon if they have a less permanent anticipated membership, is approaching the end of its participation in the Fund or do not have a known funding source to afford increased contributions if investment returns under-perform.

The longest time horizon afforded any employer in the Fund is 20 years (generally reserved for long term employers with reliable funding sources).

The ~~probability required~~ likelihood of achieving the funding target over a given time horizon, allowing for different likelihoods of various possible economic outcomes

It is extremely unlikely that the contribution rate will absolutely ensure that the combination of contributions and market movements will return a funding position of 100% when an employer reaches the end of their time horizon. Therefore the Administering Authority will take a view on the minimum required probability of an employer reaching their funding target over their time horizon.

Typically, a higher required probability will give rise to higher contribution rates, and vice versa.

Probabilities are applied depending on the nature and security of an employer. The Administering Authority may look for more certainty that an employer will reach its funding target over the given time if they have a less permanent anticipated membership, are approaching the end of their participation in the Fund or do not have a guarantor. ~~For employers~~Employers who are open to new entrants are considered to be long term and a lower level of probability may be appropriate.

In general, the Fund will require all employers to have at least a 66% chance of being fully funded by the end of their time horizon.

**Application**

The application of the above factors by employer group is shown below:

| | Funding Basis | Probability | Maximum Time Horizon [6] |
|---|---|---|---|
| **Local Authorities and Police** | Ongoing | 66% | 20 years |
| **Designating Employers** | Ongoing | 66% | 20 years |
| **Academies** | Ongoing | 70% | 20 years |
| **Other Scheduled Bodies** | Ongoing | 70% | Future Working Lifetime |
| **Admission Body with no Guarantor** | ~~Gilts plus an additional allowance for future improvements in life expectancy and future administration expenses.~~[7]Gilts cessation basis[8] | 75% [9] | Minimum of Future Working Lifetime and remaining contract period |
| **Admission Body with Guarantor** | Ongoing | 75% | Minimum of Future Working Lifetime and remaining contract period. |
| **Admission Body on pass through or other risk sharing arrangements** [10] * | Contractual | ~~75%~~Same as ceding employer | Same as ceding employer |

[6] Whilst the Administering Authority would normally expect the same period or derivation method to be used at successive triennial valuations, it reserves the right to propose alternative periods, for example where there were no new entrants.~~ ~~ over the inter-valuation period.

[7] ~~Not applicable when moving towards gilts over time~~

[8] The Fund may gradually move employers from an ongoing basis to the gilts cessation basis over time to manage the cost of exiting the Fund. Alternative funding bases may also be used where appropriate security is put in place.

[9] Where an employer is nearing cessation, the Administering Authority may vary the probability of achieving the funding target to 50% to reduce the chances of a surplus on cessation.

[10] It should be noted that different 'pass through' arrangements have been adopted by employers when commissioning services from a third party. These arrangements may require deviations from the above, including:

- The Actuary to certify the same rate for the Admission Body as that calculated for the Scheme Employer
- The Actuary to certify a static rate for the Admission Body
- The Actuary to calculate the estimated cost of new benefits only (on the basis that assets and liabilities for the Admission Body remain with the ceding Scheme Employer)

# Achieving Stability

The Administering Authority has an overarching objective to keep contributions as stable as possible over time. Therefore, where an employer is considered relatively low risk or provides appropriate security, the Administering Authority, at its absolute discretion, may smooth changes in contributions in the expectation that the employer will still be able to meet its obligations for many years to come (or the Fund will be able to call on any security provided if required). Smoothing techniques include:

- A cap to its employer contribution rate changes within a pre-determined range ("stabilisation"). This can allow for short term investment market volatility to be managed and keep some employers' rates relatively stable. This can be viewed as a prudent long-term approach for some employers. Further details are set out in Appendix 1.
- Phasing in contribution rises or reductions.
- Use of extended time horizons (although the maximum applied is 20 years).
- Pooling of contributions amongst employers with similar characteristics. Pools currently exist for small designated employers and some academies which participate in Multi Academy Trusts. Council funded schools generally are also pooled with their funding Council (although there may be exceptions for specialist or independent schools, where applicable). Those employers which have been pooled are identified in the Rates and Adjustments Certificate and are reviewed at each valuation.

These smoothing techniques will temporarily produce lower or higher contribution levels than would otherwise have applied. It should be noted, that paying lower contributions, even in the short term, may lead to higher contributions in future.

In addition to the above, the Administering Authority will usually require Scheduled Bodies to pay their primary rate where an employer is in surplus. The Administration will consider exceptions to this where an employer is at least 120% funded.

# Payment and Review of Contribution Rates

The rates for all employers are shown in the Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. It should be noted:

- The Rates and Adjustment Certificate shows employer contributions expressed as minimum contributions, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken into account by the actuary at subsequent valuations.
- Where employers are in surplus, the secondary rate will be set as a percentage of pay. Where an employer is in deficit, the secondary rate is set as monetary amounts or a percentage of pay.[11] Exceptions to these guidelines may apply where an employer anticipates large increases in membership (e.g. as a result of auto-enrolment), in which case the Administering Authority reserves the right to require ~~deficit~~deficits to be repaid as a percentage of pay with a monetary underpin. Alternative arrangements can be agreed at the ultimate discretion of the Administering Authority.
- The Administering Authority, taking advice from its actuary, may permit some employers to elect to make ~~a~~an advance / lump sum payment at the start of a financial year, or valuation period. In these circumstances a contribution rate adjustment reflecting appropriate actuarial discounts may apply. However, employers adopting this approach should acknowledge the risks involved, particularly in respect of the impact of investment return during the inter~~ valuation period.~~-valuation period. The relevant discount for the valuation is included as part of the Rates and Adjustment Certificate. A timetable for the agreement to any lump sum payment is shown below. The process must be agreed by the Administering Authority, the Employer and their auditors in advance of any prepayment.

| 2020/21 | 2021/22 | 2022/23 | Action |
|---|---|---|---|
| 13/03/2020 | 12/03/2021 | 11/03/2022 | Employer to notify the Administering Authority of the estimated payroll to be used in calculating the advance / lump sum payment |
| 20/03/2020 | 19/03/2021 | 18/03/2022 | Administering Authority agrees payroll to be used and sets the amount of advance / lump sum payment |
| 19/04/2020 | 19/04/2021 | 19/04/2022 | Advance / lump sum payment made |
| 01/03/2021 | 01/03/2022 | 01/03/2023 | Administering Authority and Employer begin checks on whether there is any underpayment (true-up) which needs to be invoiced within normal accounting timetables due to actual pay being greater than that estimated. |

[11] The Fund prefers secondary rates to be a percentage of pay where monetary amounts would be less than £20,000 per annum. Initial results will be presented as a percentage of pay, however employers do have the option to discuss retaining annual cash amounts with the Administering Authority.

- Review of the rates for all employers may be triggered by significant events including but not limited to:
  - changes to LGPS Regulations
  - significant reductions in payroll
  - altered employer circumstances including where an employer is approaching cessation or closes their membership to new entrants
  - Government restructuring affecting the employer's business
  - failure to pay contributions or arrange appropriate security as required by the Administering Authority
  - The ~~result~~outcomes of ~~a~~the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time).

It should be noted that any review may ~~be to~~ require increased contributions ~~by strengthening the actuarial assumptions adopted and/or an increased level of security or guarantee.~~ .

# Additional Employer Costs

**Non ill-health early retirement costs**

When the actuary calculates an employers liabilities he will assume 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).[12]

Therefore, no allowance is made for premature retirement except on grounds of ill-health.

As a result, employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age.

The Administering Authority's requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).

An employer can request to pay instalments over a three year period, but this would be by exception.

The Chief Finance Officer to agree exceptions to the current practice.

**Ill-health early retirement costs**

When the actuary calculates an employers liabilities he will make an allowance of ill-health early retirements where a member is entitled to receive early payment of their benefits.[13]

The Administering Authority monitors each employer's ill-health experience on an ongoing basis against an allowance determined by the actuary.

If the cumulative strain cost of an employer's ill-health retirements in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as applied for non ill-health cases.

However individual employers may take out ill-health insurance on an individual basis. Under these circumstances:

- the Administering Authority would not monitor the employer's ill health experience against the actuary's allowance
- the employer will be charged additional contributions whenever an employee retries early on ill health grounds under the expectation the employer can recoup the charges from their insurer
- the Administering Authority may allow the insurance premium to be offset against their certified contribution rates. This arrangement is allowed for the period the insurance is in place.

# New Employers

**General Principles**

[12] The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.
[13] The relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014.

Scheduled Bodies

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies to join the Fund. As these events are rare and tend to be unique in nature, the Administering Authority does not have a prescribed method for allocating an initial funding position. This would be determined on a case by case basis.

The new body's contribution rate would be determined in line with the guidance in this FSS.

Designating Employers

Typically, new Designating Employers constitute new membership in the Scheme (there is no past service liabilities at outset), therefore, no assets are usually transferred to the new employer at outset. However this would be determined on a case by case basis.

The new Designating Employers initial contribution rate will be set equal to that of the Small Scheduled Bodies pool.

Academies & Free Schools

The initial liabilities of a new Academy or Free School will be based the past service liabilities of its active members in the Fund 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.

The new Academy or Free School will then be allocated an initial asset share from West Sussex County Council's (WSCC's) assets in the Fund. This asset share will be calculated using the estimated funding position of WSCC at the date of Academy or Free School conversion, having first allocated assets in WSCC's share to fully fund deferred and pensioner members subject to a maximum of 100% of liabilities. The asset allocation will be based on market conditions and the new Academy or Free School's active membership in the Fund on the day prior to conversion. The initial assets are then determined by multiplying this funding level by the new Academy or Free School's initial liabilities.

The new Academy or Free School's initial contribution rate will beset equal to that of WSCC except:

- where a new Academy is part of a Multi Academy Trust (MAT) already participating in the Fund, where the new Academy can elect to be pooled with the other Academies in the MAT (and within the Fund) for contribution rate purposes. In this scenario, the Academy's initial contribution rate will be set equal to that of the MAT's pooled rate.
- where a new Academy or Free School wishes to pay an individual rate calculated by the Fund Actuary.

At subsequent valuations an Academy or Free School's rate will be determined on an individual basis, unless pooled with their MAT in which case they will pay the MAT rate as determined in line with the guidance in this FSS.

It should be noted that its underlying cashflows and experience will be tracked individually by the actuary whether pooled or not.

Admission Bodies

Contractors

Where there is a new Admission Body set up as a result of a TUPE transfer of ~~some~~ staff from the letting employer to the contractor, the Admission Body would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees.

Unless agreed otherwise with the Administering Authority, the funding level will be calculated as the market value of assets being equal to the value placed by the actuary on the benefits built up to date for the transferring employees (so the admission body will start fully funded on an ongoing funding basis).

The contractor's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority, the contractor and the Administering Authority.

Employers who "outsource" have some flexibility in the way they deal with the pension risk potentially taken on by the contractor, such as Pass Through. Under Pass Through, the contractor pays the certified rate ~~and~~with the contract price being adjusted such that the contractor's pension costs ~~and~~do not change i.e. the letting employer retains some (but possibly not all) pensions risks – and the associated assets and liabilities. The application of any Pass Through arrangement is a contractual provision between the contractor and Employer. Employers may choose to put other risk sharing arrangements in place, in consultation with the Fund. It should be noted, that where investment risks will remain with the letting employer, no pension fund assets or liabilities will transfer to the contractor's portion of the Fund.

Other

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as Section 75 NHS Partnerships) to join the Fund if they are sponsored by a Scheduled Body, guaranteeing their liabilities and also providing a form of security. Given the rare occurrence of these bodies joining the Fund, their initial asset allocation and contribution rate will be considered on a case by case basis considering the guidance provided by this FSS.

**Application**

The application of the above factors by employer group is shown below:

| | Asset Allocation | Initial Rate | Treatment at subsequent valuations |
|---|---|---|---|
| **Local Authorities and Police** | Determined on a case by case basis in line with FSS. | Determined on a case by case basis in line with FSS. | Determined on a case by case basis in line with FSS. |
| **Designating Employers** | N/A | Small Scheduled Bodies Pooled rate. | Small Scheduled Bodies Pooled rate. |
| **Academies** | Estimated funding position of the active liabilities of WSCC after fully funding WSCC's deferred and pensioner liabilities. This is subject to a maximum initial funding level of 100% | Option to pay WSCC's rate, a rate determined by the actuary in line with the FSS or if part of a MAT may elect to pay rate equal to that of the MAT's pooled rate. | Determined on an individual basis, or MAT pooled rate. |
| **Other Scheduled Bodies** | Determined on a case by case basis in line with FSS. | Determined on a case by case basis in line with FSS. | Determined on a case by case basis in line with FSS. |
| **Admission Body with no Guarantor** | Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis. | Determined on an individual basis. | Determined on an individual basis. |
| **Admission Body with Guarantor** | Where contractor, fully funded on the Fund's ongoing funding basis, otherwise determined on case by case basis. | Determined on an individual basis. | Determined on an individual basis. |
| **Admission Body on pass through / other risk sharing arrangements** | Determined on a case by case basis | Determined on a case by case basis | Determined on a case by case basis |

# Exiting employers: cessation valuations

### General Principles

The Administering Authority may consider any of the following as triggers for the cessation on an employer's participation in the Fund:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Administering Authority;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Administering Authority.

<u>Assessment</u>

On cessation, the Administering Authority will instruct the actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

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. This may include making an allowance for future administration costs associated with administering the benefits of the former employer's members and the risk of members living longer than anticipated.

Where there is a deficit:

- The normal approach is for payment of this amount in full by the Admission Body as a single lump sum payment.
- In some instances, the Administering Authority has the discretion to defer charging a cessation liability for up to three years if the employer is expected to acquire one or more active members in the Scheme over the period by issuing a written notice ("a suspension notice").
- If it is not possible for the deficit to be paid as a single lump sum the Administering Authority may permit the employer to make regular contributions to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The Administering Authority would reserve the right to invoke the cessation requirements in the future.
- In the event that the Administering Authority is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Scheme. 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.

Where there is a surplus:

- An employer is entitled to receive an exit credit from the Administering Authority. This must be paid within three months of the date on which the employer ceased to participate in the Fund, or such longer time as the Administering Authority and exiting employer agree.[14]

Employers with no remaining active members

When an employer ceases their participation in the Fund, and provided their exit obligations are met, they will have no further obligation. However as member benefits are guaranteed, it is expected that one of two situations will eventually arise:

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

**Application**

The application of the above factors by employer group is shown below:

| | Basis | Exit Liability Payment Terms | Exit Credit Payment Terms |
|---|---|---|---|
| **Local Authorities and Police** | Gilts cessation basis | Immediate, Payment Plan or Suspension Notice | Within three months of the date on which the employer ceased |
| **Designating Employers** | Gilts cessation basis | Immediate, Payment Plan or Suspension Notice | Within three months of the date on which the employer ceased |
| **Academies** | Gilts cessation basis | Immediate, Payment Plan or Suspension Notice | Within three months of the date on which the employer ceased |
| **Other Scheduled Bodies** | Gilts cessation basis | Immediate, Payment Plan or Suspension Notice | Within three months of the date on which the employer ceased |
| **Admission Body with no Guarantor** | Gilts cessation basis | Immediate or Payment Plan | Within three months of the date on which the employer ceased |
| **Admission Body with Guarantor** | Ongoing basis | Immediate or Payment Plan | Within three months of the date on which the employer ceased |

[14] **Currently being reviewed by Central Government**

| | | | |
|---|---|---|---|
| **Admission Body on pass through / other risk sharing arrangements** | Ongoing basis [15]* | Immediate or Payment Plan but note Contractual provisions from related Employer. | Within three months of the date on which the employer ceased but note Contractual provisions from related Employer. |

[15] It should be noted that in most circumstances, the Fund assumes all liabilities and assets of employers admitted under 'pass through' remain with the Scheme Employer as they typically retain nearly all the pensions risks of the members involved.  Therefore, the Fund refers to the contractual agreement between the employer and the Scheme Employer for instruction on how any exit credit/debt is to be determined, if available.

# Other Actuarial Matters

**Security as a requirement for participation**

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 Administering Authority requires security 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 fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit on the employer's appropriate cessation basis.

In addition it should be noted:

- Where the Admission is to a contractor, the Administering Authority requires that the security must be to the satisfaction of the Administering Authority as well as the Scheme Employer letting ~~employer~~the contract.
- Where a new admission body is not a contractor, the security must be to the satisfaction of the Administering Authority (and any employer providing a guarantee where applicable).
- All security requirements must be reassessed periodically, but no less often than each formal valuation of the Fund.

**Security in the context of setting employer contribution rates**

The Administering Authority may permit greater flexibility within the framework for setting employer contributions if the employer provides added security to the satisfaction of the Administering 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/or
- whether the Admission Agreement is likely to be open or closed to new entrants

It should be noted, that Local Authorities and the Police are already afforded the maximum flexibility in respect of setting contribution rates due to the security of their funding sources. Therefore, this policy does not apply to them.

**Policies on bulk transfers**

Bulk transfers of members take place where ten or more members transfer to another Administering Authority's LGPS fund or where two or more members transfer to a non-LGPS fund. Each case will be treated on its own merits, but in general, where active members are transferring the Administering Authority will pay bulk transfers in line with factors provided by the Government Actuary's Department for individual transfers with an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

~~For~~ The Administering Authority reserves the right to use alternative approaches if an Employer has an 'exit event' as a result of the bulk transfer.

For transfers involving deferred and pension members (such as when employers in different funds merge) the Administering Authority will pay the asset share attributed to the transferring members including an allowance for known fund returns between the transfer date and payment date. This also forms the minimum amount the Fund will accept on a transfer in.

The Administering Authority permits shortfalls to arise on bulk transfers if the employer participating in the Fund has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to the Fund to increase between valuations. Where this is not met, the Administering Authority may require a higher transfer amount or immediate contribution from the employer(s) involved.

# Appendix 1 – Stabilisation

"Stabilisation" is an approach used by the Administering Authority to allow for short term investment market volatility to be managed and keep some employers' rates to be relatively stable.

The application for Scheduled Bodies is shown in more detail below (provided there are no anticipated material events e.g. significant reductions in active membership):

| Type of employer | Councils near full funding | Other Councils |
|---|---|---|
| ~~Max~~Min cont. level | ~~To be determined as part of the 2019 Valuation modelling~~18% of pay | 18% of pay |
| Max cont. level | 2018/19 Rate | N/A |
| Max cont. increase | 1% | 3% |
| Max cont. decrease | 1% | 3% |

Employers whose contribution rates have been "stabilised" may therefore be paying more or less than they might otherwise have paid at any one time. Employers should be aware 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 choice of method;
- Lower (higher) contributions in the short term will be assumed to incur a greater loss (gain) of investment returns on any deficit. Thus, deferring (or not) a certain amount of contribution may lead to higher (lower) contributions in the long-term; and
- It may take longer to reach full funding, all other things being equal.

# Appendix 2 – Funding strategy and links to investment strategy

**General Principle**

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.

The investment strategy is set by the Administering Authority and describes the precise mix, manager make up and target returns.

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. ~~**Link between funding strategy and investment strategy**~~

**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 Actuarial Valuation and 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.

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

In the opinion of the actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is 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.

However, in the short-term – such as ~~the three yearly assessments~~ at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium-term, asset returns will fall short of this target. The stability measures described above will damp down, but not remove, the effect on employers' contributions.

**How does this differ for a large stable employer?**

The actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- **Prudence** - the Fund should have a reasonable expectation of being fully funded in the long-term;
- **Affordability** – how much can employers afford;

- **Stewardship** – the assumptions used should be sustainable in the long-term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- **Stability** – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key objectives often conflict. For example, minimising the long-term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling ("ALM"). An ALM is a set of calculation techniques applied by the actuary, to model the range of potential future solvency levels and contribution rates.

The actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

~~[~~Whilst the current stabilisation mechanism is to remain in place until ~~2020~~2023, it should be noted that this will need to be reviewed following the ~~2019~~2022 valuation~~]~~.

**Does the Administering Authority monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, at least quarterly. It reports this regularly to the Pensions Panel.

# Appendix 3 - Statutory reporting and comparison to other LGPS funds

**Background**

Under Section 13(4)(c) of the Public Service Pensions Act 2013 The Government Actuary's Department (GAD) must, following each actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on whether the rate of employer contributions are set at an appropriate level to ensure the solvency of each fund in the LGPS England & Wales and to ensure the long term cost efficiency of each fund in the LGPS England & Wales.

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

**Solvency**

For the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if 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

- employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

**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 the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to following absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is not primarily concerned with comparing funds with a given benchmark.

Relative considerations include:

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

Absolute considerations include:

- if there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period;
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future;
- the extent to which the required investment return under “relative considerations” above is less than the estimated future return being targeted by the Administering Authority’s investment strategy;
- the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- 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 experience of the Fund.

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 4 – Regulatory framework

**Background**

The Funding Strategy Statement is the framework within which the actuary carries out 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 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."

The requirement to maintain and publish a FSS is contained in the 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 the Chartered Institute of Public Finance and Accountancy (CIPFA) and to its Investment Strategy Statement.

The FSS applies to all employers participating in the Fund.

**Consultation**

The FSS must first be subject to consultation with such persons as the Authority considers appropriate.

The Administering Authorities consultation process for this FSS was as follows:

a) The Administering Authority hosted employer events in May 2019, July 2019 and November 2019 at which questions regarding the funding strategy could be raised and answered.

b) A draft version of the FSS was issued to all participating employers and the Pension Advisory Board in May and June 2019 for comment;

c) The FSS was updated where required and then published, in March 2020.

**Publication**

The FSS is made available through the following routes:

- Published on the website, at www.westsussex.gov.uk/pensions;
- A full copy linked from the annual report and accounts of the Fund;
- Copies made available on request.

**Review**

The FSS is reviewed in detail at each valuation.

It is possible that minor amendments may be needed between valuations. These would be needed to reflect any regulatory changes or alterations to the way the LGPS 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; and/or
- other more significant amendments would be subject to full consultation.

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

**Related policy documents**

The FSS is a summary of the Administering Authority’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 including the Investment Strategy Statement, 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 web at www.westsussex.gov.uk/pensions.

# Appendix 5 – Responsibilities of key parties

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

**The Administering Authority should:-**

- operate the Scheme as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Scheme Employer;
- collect employer contributions and employee contributions, investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- 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 and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the actuary;
- prepare and maintain a Funding Strategy Statement ("FSS") after consultation;
- provide data and information as required by GAD to carry out their Section 13 obligations;
- notify the actuary of material changes which could affect funding; and
- monitor all aspects of the Fund's performance and funding and amend the related policy document as necessary and appropriate.

**The Individual Employer should:-**

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

**The actuary should:-**

- prepare valuations, including the setting of employer 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;
- 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);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- provide data and information required by GAD to carry out their Section 13 obligations;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's investment strategy remains appropriate and consistent with its funding strategy;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets in line with the investment strategy;
- 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;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 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;
- The Ministry of Housing, Communities and Local Government (as assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS funds to meet Section 13 requirements.

# Appendix 6 – Key risks and controls

## 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 (F);
- Demographic (D);
- Regulatory (R); and
- Governance (G).

## Financial risks

| | Risk | Summary of Control Mechanisms |
|---|---|---|
| F | Assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. | Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.<br><br>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.<br><br>Analyse progress at three-yearly valuations for all employers.<br><br>Inter-valuation roll-forward of liabilities between valuations at whole Fund level. |
| F | Inappropriate long-term investment strategy. | Consider overall investment strategy options as an integral part of the funding strategy.<br><br>Use asset liability modelling to measure 4 key outcomes. |
| F | Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | Stabilisation modelling at whole Fund level allows for the probability of this within a longer-term context.<br><br>Inter-valuation monitoring, as above.<br><br>Some investment in bonds helps to mitigate this risk. |

| | Risk | Summary of Control Mechanisms |
|---|---|---|
| F | Active investment manager under-performance relative to benchmark. | Quarterly investment monitoring of active managers relative to their benchmark. |
| F | Pay and price inflation significantly more than anticipated. | Focus the actuarial valuation process on real returns on assets, net of price and pay increases.<br><br>Inter-valuation monitoring, as above, gives early warning.<br><br>Some investment in bonds also helps to mitigate this risk.<br><br>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. |
| F | Effect of possible increase in employer 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. |
| F | 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.<br><br>If it occurs, the actuary calculates the added cost spread pro-rata among all employers~~ (see 3.9)~~. |
| F | Effect of possible asset underperformance as a result of climate change | Explicitly consider ESG issues when setting the overall funding and investment strategies.<br><br>Carry out scenario testing on potential Government policy changes when evaluating funding and investment strategies. |
| D | Pensioners living longer, thus increasing cost to Fund. | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>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 |

| | Risk | Summary of Control Mechanisms |
|---|---|---|
| | | the assumptions underpinning the valuation. |
| D | 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. |
| D | Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill-health retirement experience is monitored, and insurance is an option. |
| D | Effects of Auto enrolment | Mechanism for reviewing and addressing the factors in the Regulations to ensure that systems (Payroll, Pensions and HR) can support auto-enrolment, e.g. correct processing and timely payment of contributions |
| R | 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.<br><br>Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. |
| R | 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 |
| R | Changes by Government to particular employer participation in LGPS funds, leading to impacts on funding and/or investment strategies. | The Administering Authority considers all consolation papers issued by the Government and comments where appropriate.<br><br>Take advice from Fund Actuary on impact of changes on the Fund and amend strategies as appropriate. |

| | **Risk** | **Summary of Control Mechanisms** |
|---|---|---|
| G | 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.<br><br>The actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation ~~38~~64) between triennial valuations<br><br>Deficit contributions expressed as monetary amounts, except where value is less than £20,000 p.a. |
| G | 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.<br><br>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| G | 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.<br><br>Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| G | 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.<br><br>The risk is mitigated by:<br><br>Seeking a funding guarantee from another scheme employer, or external body, wherever possible~~ (see Notes (h) and (j) to 3.3).~~.<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. |

| | Risk | Summary of Control Mechanisms |
|---|---|---|
| | | Vetting prospective employers before admission.<br><br>Where permitted under the Regulations, requiring a bond to protect the Fund from various risks.<br><br>Requiring new Admission Bodies to have a guarantor.<br><br>Reviewing bond or guarantor arrangements at regular intervals~~ (see Note (f) to 3.3).~~.<br><br>Reviewing contributions well ahead of cessation if thought appropriate~~ (see Note (a) to 3.3).~~. |

# Appendix 7 – Actuarial assumptions

**Background**

Actuarial assumptions are expectations of future experience used to place a value on future benefit payments ("the liabilities").

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.

**2019 valuation assumptions**

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The table below shows the recommended assumptions for the 2019 valuation relative to the assumptions used in the 2016 valuation. The Administering Authority believes that these assumptions are appropriate for the West Sussex Fund.

| Assumption | 31 March 2019 | 31 March 2016 |
|---|---|---|
| Financial assumptions | | |
| **Discount rate** | 3.1% p.a. | 3.8% p.a. |
| **Salary growth** | 2.8% p.a. | 2.9% p.a. |
| **Pension Increases** | 2.3% p.a. | 2.1% p.a. |
| Demographic assumptions | | |
| **Longevity**<br>**Baseline**<br>**Improvements** | Club Vita<br><br>CMI 2018<br>Smoothed<br>1.5% p.a. long term | Club Vita<br>"Non-peaked" CMI 2013 projections subject to a 1.5% underpin |
| **Withdrawals** | 2019 | 2016 |
| **Ill health retirements** | 2019 | 2016 |
| **Promotional salary growth** | 2019 | 2016 |
| **Cash commutation** | 50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008) | ~~75% max~~50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008) |

| | | |
|---|---|---|
| **50:50 option take up** | 1% uniformly distributed across age, service and salary range) | 1% |

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

**Basis Used**

The Administering Authority's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Scheme in the long-term.

However, in certain circumstances a more prudent basis applies.

**What assumptions are made in the ongoing basis?**

**a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Funds's investments. ~~This "discount rate" assumption makes allowance for an anticipated out-performance of assets returns relative to long-term yields on UK Government bonds ("gilts"). There is, however, no guarantee that the mix of assets returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.~~

Given the ~~very~~ long-term nature of the liabilities, a long term view of prospective ~~asset~~ returns from growth-seeking assets is taken. ~~The long-term in~~ In setting this ~~context would be~~assumption, the Actuary has modelled the annual returns over the next 20 ~~to 30 years or~~ years on the Fund's investment portfolio under 5,000 different economic scenarios. The investment return assumption has then been set such that more than 75% of the scenarios produced a return in excess of the assumption.

For the purpose of the valuation at 31 March 2019 and setting contribution rates effective from 1 April 2020, the actuary has assumed that future investment returns earned by the Fund over the long term as derived using the above methodology will be ~~[X.X%]~~3.1% per annum~~ greater than gilt yields at the time of the valuation. ~~.

In the opinion of the actuary, based on the current investment strategy, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

**b) Pension Increase and Salary growth**

~~[TBC]~~

~~The same salary assumptions are applied to all employers.~~

~~Pension increases~~

The table below details the salary increase, CARE revaluation rate and benefit increase assumptions at 31 March 2019. The equivalent assumptions used in the 2016 valuation are shown for comparison.

| Assumption | 31 March 2019 | 31 March 2016 |
|---|---|---|
| Benefit Increases and CARE revaluation (CPI) (% pa) | 2.3% | 2.1% |
| Salary Increases (% pa) | 2.8% [16] | 2.9% [17] |

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

~~[TBC]~~

The same salary assumptions are applied to all employers.

**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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future.

~~[TBC]~~The proposed longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2016 shown for comparison):

| Assumption | 31 March 2019 | 31 March 2016 |
|---|---|---|
| **Male** | | |
| Pensioner | 22.2 | 23.6 |
| Non-Pensioner | 23.3 | 26.0 |
| **Female** | | |
| Pensioner | 24.2 | 25.0 |
| Non-Pensioner | 25.9 | 27.8 |

[16] CPI plus 0.5%

[17] CPI plus 0.7% (equivalent to RPI less 0.3%)

## General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the contribution rate unless otherwise deemed appropriate. 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.

## Other Actuarial Bases

The Fund may adopt alternative actuarial bases for some employees for both funding valuations and exit valuations as set out in the sections on funding target basis and exiting employers above.

The gilts cessation basis assumes the fund will invest in fixed interest gilts to 'match' the expected cashflows of an exiting employer's membership. The discount rates adopted are set in line with the Bank of England yield curve. To be consistent with these discount rates, CPI will be determined by subtracting 1% p.a. from the corresponding Bank of England inflation curve. Further allowances for longevity improvements beyond those made in the 2019 valuation may be considered by the Administering Authority as well.

Where an employer is approaching exit, or where additional security is put in place, the fund may consider alternative strategies that lie between the gilts cessation basis and the ongoing basis.

# Appendix 8 – Glossary

| | |
|---|---|
| **Actuarial assumptions/basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value. |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. |
| **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. |
| **Deficit** | The shortfall between the assets value and the **funding target**. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). |
| **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. |
| **Discount rate** | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **Primary and Secondary rates**. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** for each employer are individually tracked, together with its **Primary rate** at each **valuation**. |
| **Funding target** | The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of **actuarial assumptions**. |
| **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 their main use in funding is as an objective measure of solvency. |
| **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 101 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 more details.~~ |
| **Pooling** | Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally |

agreed) it may allow deficits to be passed from one employer to another. ~~For further details of the Fund's current pooling policy (see 3.4).~~

| | |
|---|---|
| **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 least every three years 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 three-year 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 rates. In broad terms, this relates to the shortfall of its asset share to its funding target. ~~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. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| **Valuation** | An actuarial investigation to calculate the **funding targets** as well as the **Primary rates** and **Secondary rates** for employers**.** This is normally carried out in full every three years (last done as at 31 March 20132016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the funding targets and contribution rates are based on long-term bond market yields at that date also. |

# Appendix 9 – Previous Valuation Results

### Summary of Past Valuation Results

A summary of the whole Fund valuation results and key assumptions for each of the previous ~~three~~five valuations is given below. For further details relating to the previous valuation results and assumptions please refer to the relevant valuation reports.

### Valuation Results

| Valuation date | 31 March 2007 | 31 March 2010 | 31 March 2013 | 31 March 2016 | 31 March 2019 |
|---|---|---|---|---|---|
| Assets (£m) | 1,549 | 1,759 | 2,370 | 2,989 | 4,374 |
| Liabilities (£m) | 1,763 | 2,047 | 2,741 | 3,141 | 3,919 |
| Surplus/(Deficit) (£m) | (214) | (288) | (371) | (152) | 455 |
| Funding level | 88% | 86% | 86% | 95% | 112% |

### Assumptions

| Valuation date | 31 March 2007 | 31 March 2010 | 31 March 2013 | 31 March 2016 | 31 March 2019 |
|---|---|---|---|---|---|
| Discount rate p.a. | 6.1% | 6.1% | 4.6% | 3.8% | 3.1% |
| Salary growth p.a. | 4.7% | 1% for 2 years then 5.3% | 3.8% | 2.9% | 2.8% |
| Pension increases p.a. | 3.2% | 3.3% | 2.5% | 2.1% | 2.3% |
| Longevity – baseline table | PXA92 mortality tables (with age ratings) | Club Vita Curves | Club Vita Curves | Club Vita Curves | Club Vita Curves |
| Longevity – future improvements | calendar year 2017 for current pensioners, calendar year 2033 for prospective pensioners | 80% of medium cohort with a 10 year lag and 1.0% p.a. minimum improvements | 'non-peaked' CMI 2010 projections with 1.25% underpins and declining mortality at older ages | 'non-peaked' CMI 2013 projections with 1.5% underpins and declining mortality at older ages | Smoothed CMI 2018 projections with 1.5% underpins and declining mortality at older ages |

# Appendix 10 - Rates and adjustments certificate

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| Pensions Panel | |
|---|---|
| **27 January 2020** | **Part I** |
| **Treasury Management Report** | |
| **Report by Director of Finance and Support Services** | |

## Executive Summary

The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2020/21 *(as originally approved by the Pension Panel at their January 2019 meeting)* with internally managed investments only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds with one amendment, reflecting the Pension Panel transition towards including more income focused asset classes within the portfolio:

(i) An increase to the maximum limit for the amount invested per short-term Money Market Fund from £5m to £10m.

Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives.

## Recommendations

(1) The Panel approves the 2020/21 Treasury Management Strategy as set out in Appendix 1.

(2) The Panel notes the treasury activity undertaken during 2019/20 (1 April to 31 December 2019).

**Treasury Management Report**

**Background**

1. The CIPFA "Treasury Management Code of Practice" requires the West Sussex Pension Fund to determine a treasury management strategy on an annual basis regarding the investment of its internally managed cash balances. The strategy includes the "Annual Investment Strategy" (AIS) that is a requirement of the Ministry of Housing, Communities and Local Government's (MHCLG) "Investment Guidance".

2. The CIPFA Code also requires regular reports detailing compliance and performance against approved treasury strategies to be reviewed by the Pension Panel.

**Economic Summary**

3. The second half of 2019 has seen limited UK economic growth as Brexit uncertainty continued to take its toll; year-on-year Gross Domestic Product (GDP) was reported to be +1.1% at 30 September 2019 (+1.3% in 2018). Additionally, recent Bank of England inflation reports were notably downbeat about the outlook for both the UK and major world economies; this mirrored investor concerns around the world over expectations of a significant downturn or possibly even a recession in some major developed economies.

4. Against this economic background the Bank of England's Monetary Policy Committee (MPC) left UK Bank Rate unchanged at 0.75% throughout 2019; however following recent comments from three MPC members that the Bank of England could cut rates in 2020 to support the economy (if necessary) markets are currently forecasting the chance of a rate cut to be circa 70% by November 2020 (with a greater than 50% chance built in from March 2020). The following table gives West Sussex County Council's treasury management advisor's (Link Asset Services) central view for the path of UK Bank Rate (updated November 2019):

| Rate (%) | Mar 2020 | Jun 2020 | Sep 2020 | Dec 2020 | Mar 2021 | Jun 2021 | Sep 2021 | Dec 2021 | Mar 2022 | Jun 2022 | Sep 2022 | Dec 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UK Bank Rate | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 |

5. The interest rate forecasts provided by Link Asset Services are predicated on the basis that, whilst UK Gross Domestic Product (GDP) growth is likely to be subdued in 2019 and 2020 due to Brexit uncertainties depressing consumer and business confidence, an agreement on the detailed terms of a trade deal will likely lead to a boost to the rate of UK growth in subsequent years - which could in turn increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast and how far those increases will occur (and rise to) will be dependent on future economic data. The Link Asset Services forecasts (as presented above) therefore assume a modest recovery in the rate and timing of stronger growth in future years and in the corresponding response by the Bank in raising rates.

**Treasury Management Strategy (2020/21)**

6. The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2020/21 *(as originally approved by the Pension Panel at their January 2019 meeting)* with internally managed investments only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds; subject to one amendment (below):

   (i) An increase to the maximum limit for the amount invested per short-term Money Market Fund from £5m to £10m (see paragraph 7).

7. The increase in the amount invested per short term Money Market Fund reflects the availability of Funds and the high cash balances currently held by the Pension Fund, pending the implementation of its strategic allocation

decision to move towards income focused assets (infrastructure and private debt via fund arrangements, with the potential total commitment being 10% of the total Fund value). Although money for any fund investment will be drawn over time, it is appropriate for the Fund to reserve cash for this future investment to avoid additional trading cost and opportunity risk relating to any short term investment. Therefore internally managed cash balances have been high in 2019 (and are expected to remain high in 2020) whilst the decisions around future income focused investments are completed.

8. Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives (which regulates that unsecured investors in a failing bank, including local authorities and local authority pension funds, would be liable in rescuing the bank instead of UK taxpayers).

9. Notwithstanding the comments in paragraph 7, the Director of Finance and Support Services will give consideration to passing surplus cash over to the Pension Fund's external fund managers (Baillie Gifford and UBS).

10. The recommended 2020/21 Treasury Management Strategy is attached at Appendix 1.

**Treasury Management Performance (2019/20)**

11. At 31 December 2019 the Pension Fund's internally managed cash, including balances held in EUR/USD bank accounts, amounted to £112.7m (£53.6m at 31 March 2019). During 2019/20 (to 31 December) the Pension Fund had an average internally managed investment balance, excluding foreign currency, of £105.5m (£49.4m for 2018/19; to 31 December 2018). Throughout the period investments were held in a Lloyd's interest earning current account and a series of short-term (AAA credit rated) Money Market Funds. The increase in the average internal investment amount during 2019/20 is mainly a consequence of West Sussex County Council paying over 2019/20 employer contributions as a lump sum payment at the start of April 2019 (£43.2m) and the Pension Fund's current approach not to pass surplus funds on to the external cash managers (see paragraph 7).

12. The Director of Finance and Support Services confirms that there were no breaches of the approved 2019/20 Treasury Management Strategy regarding internally managed cash during the period 1 April 2019 to 31 December 2019. The Director of Finance and Support Services further confirms that in addition to balances held for investment, foreign currency (EUR/USD) balances were held in attempting to achieve the most beneficial rates when exchanging back into Sterling.

13. At 31 December 2019 the total amount of foreign currency held was valued in GBP at £8.5m (based on 31 December exchange rates as provided by Northern Trust):

| **Bank Account** | **Balance at 31/12/19** | **Average Balance** |
|---|---|---|
| Lloyds - Euro Account | €3.952m | €0.597m |
| Lloyds - US Dollar Account | $6.821m | $1.376m |

14. In accordance with the investment strategy approved in January 2019 the Pension Fund received interest totalling £0.5m during the period 1 April 2019 to 31 December 2019 *(£0.3m for 2018/19; to 31 December 2018)*. The rate of return achieved on GBP balances held during the period was 0.66% *(0.59% during the same period in 2018/19)* reflecting the low interest rates applicable on instant access GBP investments.

| **Counterparty** | **Average Balance £'m** | **Interest Received £'m** | **Rate of Return %** |
|---|---|---|---|
| Lloyds-Current Account (GBP) | 62.5 | 0.3 | 0.65 |
| Short-Term Money Market Funds | 43.0 | 0.2 | 0.68 |
| **Total** *(i)* | **105.5** | **0.5** | **0.66** |

*(i) Additional interest totalling £8,317 has been received in respect of cash balances held in the Pension Fund's USD bank account*.

15. During the same period West Sussex County Council achieved a rate of return of 1.30% on its invested cash balances. The higher yield reflects the Council's treasury management strategy of investing a proportion of its cash balances for periods up to 365 days and beyond (including long-term externally managed pooled investment funds) at interest rates higher than those available on the instant access accounts used by the Pension Fund.

**Recommended**

16. The Panel approves the 2020/21 Treasury Management Strategy as set out in Appendix 1.

17. The Panel notes the treasury activity undertaken during 2019/20 (1 April to 31 December 2019).

**Katharine Eberhart**
Director of Finance and Support Services

**Contacts:**
Jonathan Clear 03302 223378

**Background Papers:**
None

**APPENDIX 1**

**Treasury Management Strategy (2020/21)**

1. The Pension Fund holds cash as working balances. It operates separate bank accounts, keeping its cash separate from the County Council in accordance with LGPS (Management and Investment of Funds) legislation, and consequently also has a separate treasury management policy to West Sussex County Council. Working balances comprise funds required to pay pensions, to fund private equity and property investments and to pay day-to-day expenses. Surplus balances may be sent to the external fund managers (subject to current Pension Fund policy regarding levels of internally managed cash) for investment in accordance with their approved strategies. A charge will be incurred by the fund for the treasury management service supplied by West Sussex County Council.

**Annual Investment Strategy**

2. Having due regard to the security of principal sums invested and the short term nature of deposits, no financial institution will be eligible to receive deposits for longer than seven days without the explicit approval of the Director of Finance and Support Services in consultation with the Chairman of the Pensions Panel. The administering authority will therefore utilise investments that are designed to offer both high liquidity and high security, with the minimum of formalities. Such investments will be denominated in Sterling and may be deposited with the UK Government, a UK Local Authority (including local authority administered pension funds) or a financial institution with 'high' credit quality (including short-term Money Market Funds).

3. In assessing counterparty creditworthiness the administering authority will consider credit ratings as provided by Fitch, Moody's and Standard and Poor's. Additionally the administering authority will consider other indicators when assessing creditworthiness including, credit default swap (CDS) prices, share prices, media coverage and market sentiment. In assessing credit ratings the Director of Finance and Support Services uses the 'Lowest Common Denominator (LCD)' approach, meaning that it uses the lowest rating of those provided by Fitch, Moody's and Standard & Poor's. The minimum credit rating criteria will be:

   - Short-term minimum: F1(Fitch); P1(Moody's); A1(S&P)
   - Long-term minimum: A-(Fitch); A3(Moody's); A-(S&P)
   - Sovereign minimum (Non-UK): AA+(Fitch); Aa1(Moody's); AA+(S&P)

| **Counterparty** | **Minimum short-term credit rating** | **Minimum long-term credit rating** | **Monetary limit** |
|---|---|---|---|
| Financial Institutions | As Above | As Above | £5m per group |
| Lloyds Bank plc | As Above | As Above | See Paragraph 4 |
| Money Market Funds *(i)* | - | AAA | £10m per fund *(ii)* |
| Local Authorities | - | - | £5m per Authority |
| UK Government | - | - | No limit |

*(i) Funds that operate either under a constant net asset valuation (CNAV) or under a Low Volatility Net Asset Valuation (LVNAV).*

*(ii) Exposure limit per fund set to £10m or 0.5% of the fund's net asset size, whichever is lowest.*

4. The monetary limit per group will be subject to explicit approval by the Director of Finance and Support Services in consultation with the Chairman of the Pensions Panel and will be continually reviewed in-year. Such approval will relate to the institution rather than the particular investment and will remain in force until revoked. In particular, approval is given to hold cash deposits, including foreign currency (EUR/USD) held within separate bank accounts, in excess of the approved £5m monetary limit with the Pension Fund's main provider of banking services (currently Lloyds Bank Plc).

5. As at **27 January 2020** the current list of approved counterparties that meet the investment criteria and offer instant access deposit accounts are:

| **Counterparty *(i)*** | **Sovereign** | **ST Credit Ratings** | **LT Credit Ratings** | **Maximum time limit** |
|---|---|---|---|---|
| Lloyds Bank Plc | UK | F1/P1/A1 | A+/Aa3/A+ | 7 days |
| Handelsbanken Plc | UK | F1+/ /A1+ | AA/ /AA- | 7 days |
| National Westminster Bank plc | UK | F1/P1/A1 | A+/A1/A | 7 days |
| Santander UK Plc | UK | F1/P1/A1 | A+/Aa3/A | 7 days |
| Debt Management Office | UK | - | AA | 7 days |
| **Money Market Funds (GBP)** | **Domiciled** | | | |
| Aberdeen Standard | Luxembourg | - | AAA | Overnight |
| Amundi | Luxembourg | - | AAA | Overnight |
| BlackRock | Ireland | - | AAA | Overnight |
| BNP Paribas | Luxembourg | - | AAA | Overnight |
| Deutsche | Ireland | - | AAA | Overnight |
| Federated Investors | UK | - | AAA | Overnight |
| Goldman Sachs | Ireland | - | AAA | Overnight |
| Insight | Ireland | - | AAA | Overnight |
| JP Morgan | Luxembourg | - | AAA | Overnight |
| Morgan Stanley | Luxembourg | - | AAA | Overnight |
| State Street | Ireland | - | AAA | Overnight |

*(i) The consideration of UK Banks that only offer instant access accounts has reduced the number of approved financial institutions as shown above.*

6. The administering authority will run a daily cash flow reconciliation of funds held by the Fund as working balances.

**Borrowing Strategy**

7. The LGPS (Management and Investment of Funds) Regulations 2016 give a fund's administering authority explicit power to borrow for up to 90 days for the purpose of its pension fund:

- To pay benefits due under the scheme, or
- To meet investment commitment arising from the implementation of a decision to change the balance between different types of investment

provided that if, at the time of borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

8. The West Sussex Pension Fund currently has sufficient cash flow and cash balances not to have to borrow to pay benefits due under the scheme.

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