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20 January 2023

Pensions Committee

A meeting of the Committee will be held at **10.00 am** on **Monday, 30 January 2023** at **County Hall, Chichester, PO19 1RQ**.

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:

- Cllr Elkins is a Member of Arun District Council
- Cllr Hunt is a Member of the Chichester Harbour Conservancy
- Cllr Jupp is a Member of Horsham District Council

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

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

The Committee is asked to agree the Part I minutes of the meeting of the Committee held on 2 November 2022 attached (cream paper).

10.04 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.

10.04 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.

10.05 am 5. **Pension Advisory Board Minutes - Part I**

The Committee is asked to note the confirmed Part I minutes from the meeting of the Pension Advisory Board on 5 September 2022 and the agenda from the meeting of the Pension Advisory Board on 14 November 2022.

(a) **5 September 2022 - Part I Pension Advisory Board Minutes** (Pages 11 - 18)

(b) **14 November 2022 - Pension Advisory Board Agenda** (Pages 19 - 22)

10.10 am 6. **Business Plan** (Pages 23 - 40)

Report by the Director of Finance and Support Services.

The Committee is asked to note the updates on Business Plan activities for 2022/23 and the risk matrix.

10.25 am 7. **Actuarial Valuation 2022** (Pages 41 - 86)

Report by the Director of Finance and Support Services.

The Committee is asked to note the valuation outcome and provide feedback on the Funding Strategy Statement prior to its publication on 31 March 2023. The Committee is also asked to approve that the Director of Finance and Support Services can agree further changes required to the Funding Strategy Statement between the meeting date and 31 March 2023.

10.40 am 8. **Treasury Management Review 2022/23 and 2023/24** (Pages 87 - 94)

Report by the Director of Finance and Support Services.

The Committee is asked to approve the 2023/24 Treasury Management Strategy and note the treasury activity undertaken during 2022/23.

10.45 am 9. **Pension Administration** (Pages 95 - 106)

Report by the Director of Finance and Support Services.

The Committee is asked to note the report.

10.55 am 10. **Date of the next meeting**

The next meeting of the Pensions Committee will be 10.00 a.m. 28 April 2023 at County Hall.

Part II

10.55 am 11. **Exclusion of Press and Public**

The Committee 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 12. **Part II Minutes of the last meeting** (Pages 107 - 114)

To confirm the Part II minutes of the meeting of the Committee held on 2 November 2022, for members of the Committee only (yellow paper).

11.00 am 13. **Pension Advisory Board Minutes - Part II** (Pages 115 - 116)

The Committee is asked to note the confirmed Part II minutes from the meeting of the Pension Advisory Board on 5 September 2022 (yellow paper).

11.05 am 14. **Investment Strategy Review 2022** (Pages 117 - 150)

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

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

12.05 pm 15. **Update from ACCESS Joint Committee activity (December 2022)** (Pages 151 - 168)

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

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

12.40 pm 16. **Review of Pension Investment Performance** (To Follow)

Paper by the Director of Finance and Support Services and Independent Fund Adviser summarising transactions and performance during the quarter and giving comments on the quarter, for members of the Committee only (yellow paper).

Break for the committee

1.30 pm	17.	**Presentation by ABRDN** The Committee to receive a presentation on portfolio performance.
2.15 pm	18.	**Presentation by Fidelity** The Committee to receive a presentation on portfolio performance.

To all members of the Pensions Committee

Pensions Committee

2 November 2022 – At a meeting of the Pensions Committee held at 10.00 am at County Hall, Chichester, PO19 1RQ.

Present:

Cllr Condie, Cllr J Dennis, Cllr Elkins, Cllr N Jupp (arrived at 10:05am), Cllr Turley, Cllr Urquhart (left at 12.30pm), Mr Kipling, Mr Wilding and Tim Stretton

Apologies were received from Cllr Hunt

Part I

35. Election of Chairman

35.1 Adam Chisnall, Democratic Services Officer, welcomed all to the meeting and noted apologies from the Chairman, Cllr Jeremy Hunt. Nominations for the role of Chairman were invited. Cllr Deborah Urquhart nominated Cllr Joy Dennis, Cllr Roger Elkins seconded the nomination.

35.2 Resolved that Cllr Joy Dennis takes on the role as Chairman for the meeting.

36. Declarations of Interests

36.1 None declared.

37. Part I Minutes of the last meeting

37.1 Resolved – That the Part I minutes of the Pensions Committee held on 27 July 2022 be approved as a correct record, and that they be signed by the Chairman.

38. Pension Advisory Board Minutes - Part I

38.1 The Committee considered the Part I minutes from the informal meeting of the Pension Advisory Board on 16 May 2022; and the Agenda from the 5 September 2022 meeting (copies appended to the signed minutes).

38.2 Resolved – That the minutes and agenda be noted.

39. Terms of Reference

39.1 Resolved – That the changes to the constitution be noted.

40. Business Plan

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

40.2 Rachel Wood, Pension Fund Strategist, introduced the report and confirmed that the Pension Fund Financial Statements had been completed. There was a national Issue regarding infrastructure asset recording that was causing a delay to the County Council Financial Statements being completed and so it was not possible to do a final sign off with the pension fund statements. However, EY had confirmed they were satisfied with the pension fund statements.

40.3 The Committee made comments including those that follow.

a. Queried if the risks needed to be updated for cybercrime. – Rachel Wood confirmed that the risk was already highly rated to reflect the current environment. The current risk reflected the actions that were being taken.
b. Noted that the cybercrime risk only referred to the impact of personal data being accessed, and that the risk should reflect wider concerns. – Rachel Wood agreed to expand to description to reflect the wider consideration.
c. Queried the private equity valuations. – Rachel Wood confirmed that the accounts had initially used estimations, and that there were no concerns with the updated valuation level.
d. Sought clarity on the change in risk from red to amber for RT12. – Rachel Wood explained that whilst the likelihood was high, the impact would be well managed with the administration team.
e. Questioned the impact of the accounts not being formally closed off. – Tony Kirkham, Interim Director of Finance and Support Services, explained that The Department for Levelling Up, Housing and Communities (DLUHC) had put out a consultation on the infrastructure issue which would look to resolve the issue and allow completion around January 2023. West Sussex County Council was in an advanced position compared to other local authorities with regard to accounts preparation. Rachel Wood added that the Scheme Advisory Board Chairman had written to the minister to request that pension fund accounts should not be linked to local authority accounts.
f. Queried the shortages of auditors. – Tony Kirkham acknowledged the national issue which added significant risk to audit fees. This would encourage audit firms to recruit. It was confirmed that the County Council had a good relationship with EY and that the accounts were substantially closed except for the infrastructure issue.

40.4 Resolved – that the committee notes the updates on Business Plan activities for 2022/23 and risk matrix.

41. Pension Administration

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

41.2 Rachel Wood introduced the report and commented on the good performance for Annual Benefit Statement publication. There had been significant improvements made following the Hampshire takeover of administration. Work was continuing in preparation for the dashboard rollout.

41.3 Andrew Lowe, Head of Pensions, Investments and Borrowing, gave reassurance that the 24% of annual returns that had data issues were from smaller employers; and so the overall position of data quality was better than 24%. Steven Law, Fund Actuary, confirmed that the data was much improved from the 2019 position.

41.4 The Committee made comments including those that follow.

a. Noted that the timeliness for annual returns was down from the previous year. – Andrew Lowe confirmed that his team continued to work with employers to improve timeliness issues. The team worked closely with the County Council team to make improvements and the timeliness position was similar to other authorities. Rachel Wood added that all employers were written to in order to make them aware of their rating. Any red issues were picked up and discussed to address any issues.
b. Sought clarity over the one employer with 'significant concerns'. – Rachel Wood confirmed that the employer was not a large employer within the fund; and reported that there was already active engagement with the employer to work on issues.
c. Asked if there were any serial offenders for annual returns. – Rachel Wood reported that there were twenty employers who had received two red ratings. These had been targeted to work on the issues.
d. Queried if there were concerns on the outstanding Annual Benefit Statements (ABS) impact on the dashboard preparation. – Andrew Lowe commented that the overall context for ABS was good with improved data. Preparation for the national Pensions Dashboard was well on the administration team's radar.
e. Sought clarity on the breach implications for ABS publication. – Rachel Wood confirmed that this was a breach due to not being 100% completed. Most funds similarly experienced this level breach. Non-compliance would be investigated to work on any required improvements.
f. Asked if the committee should be comparing administration performance by quarterly reports. – Andrew Lowe explained that there were currently no concerns with the work in progress, and reflected the dependency on third parties providing data.
g. Queried the progress with loading McCloud data sets. – Andrew Lowe confirmed that the work was ongoing. Rachel Wood reported that there had been challenges getting the required data from some employers. Steven Law confirmed that there were no regulations on McCloud yet and therefore no timetables. Steven Law added that, as a supplementary impact of the McCloud judgement, teachers who worked full time and extra additional part time hours would need the part time hours admitted to the Local Government Pension Scheme.
h. Noted there were delays with death benefits and queried the target. – Andrew Lowe confirmed that delays were likely linked to the data requests to be able to facilitate the benefit processing. It was confirmed that assistance was given to assist the employers.
i. Queried if delays with death benefits were linked to people not using electronic communication. – Rachel Wood agreed that it could be useful to identify the issues and see what could help the situation.

j. Sought clarity on the process for dependent claim processes and who held the responsibility. – Andrew Lowe confirmed that the county council retained the discretion on who to pay. Rachel Wood agreed to circulate details on the process.

41.5 Resolved – that report be noted.

42. Date of the next meeting

42.1 The Committee noted that its next scheduled meeting would take place on 30 January 2023 at County Hall, Chichester.

43. 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.

44. Part II Minutes of the last meeting

The Committee agreed the Part II minutes of the Pensions Committee held on 27 July 2022.

45. Pension Advisory Board Minutes - Part II

The Committee noted the contents of the Part II minutes from the 16 May 2022 informal Pension Advisory Board meeting.

46. Cyber Security

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

The Committee considered the report and noted its contents.

47. Actuarial Matters

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

The Committee considered the report and noted its contents.

48. Update from ACCESS Joint Committee activity (6 October 2022)

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

The Committee considered the report and noted its contents.

49. Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

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

The Committee considered the report and noted its contents.

50. Investment Performance and Strategy

The Committee considered a paper by the Interim Director of Finance and Support Services and the Independent Adviser relating to the quarterly performance reports from the fund managers.

The Committee welcomed the advice.

51. Cashflow Report

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

The Committee considered the report and noted its contents.

52. Presentation by Baillie Gifford

The Committee received an update from Tim Gooding and Paul Roberts from Baillie Gifford on the portfolio performance for the quarter.

53. Club Vita

The Committee received a presentation from Jill Gallagher from Club Vita on pension fund longevity.

The meeting ended at 2.40 pm

Chairman

Pension Advisory Board

5 September 2022 – At a meeting of the Pension Advisory Board held at 9.30 am at County Hall, Chichester PO19 1RQ.

Present: Peter Scales (Chairman)

Richard Cohen, Miranda Kadwell, Kim Martin, Becky Caney, Chris Curry and Richard Walton

Officers in attendance: Clare Williams (Deputy Director of Finance), Rachel Wood (Pension Fund Strategist), Vickie Hampshire (Finance Manager (Pension Fund – Governance)), Tara Atkins (Principal Pensions Consultant (Administration & Employers)), Adam Chisnall (Democratic Services Officer) and Andrew Lowe (Head of Pensions, Investments and Borrowing).

Part I

1. Declarations of Interests and Conflicts

1.1 The Chairman welcomed everyone to the first meeting at County Hall since February 2020.

1.2 The Chairman welcomed Chris Curry and Richard Walton as the recently appointed scheme member representatives; and took the opportunity to thank Chris Scanes, a former scheme member representative, for his contributions to the Board.

1.3 No interests or conflicts declared.

2. Part I Minutes of previous meetings

2.1 Resolved

1. That the Part I minutes of the meeting of the Board held on 11 February 2022 be approved as a correct record and signed by the Chairman.

2. That the Part I minutes from the informal meeting of Board Members held on 16 May 2022 be noted for accuracy and signed by the Chairman.

3. Pension Advisory Board Membership

3.1 The Board noted that the Chairman had agreed to reappoint Miranda Kadwell and Becky Caney as an Employer Representative and a Scheme Member Representative respectively on the Board for a second 4 year term.

3.2 The Board also noted the new Scheme Member Representatives; Chris Curry and Richard Walton.

4. Progress Statement

4.1 Resolved – That the Board notes there are no outstanding issues.

5. Pensions Committee Minutes - Part I

5.1 The Board considered the confirmed Part I minutes from the 29 April 2022 Pensions Committee meeting and the Agenda from the 27 July 2022 Pensions Committee meeting (copies appended to the signed minutes).

5.2 The Board made comments including those that follow.

- Asked if minute 5.2 - bullet d - should be referring to employer contributions, rather than employee. – Rachel Wood confirmed that this was a mistake, and it should be employer.
- The Chairman highlighted minute 4.2 and confirmed that he had attended Pensions Committee meetings in the past and had also watched all webcast meetings. The Chairman reminded Board members that the Pensions Committee Chairman had extended an invite to them to join meetings, as observers.

5.3 Resolved – That the minutes and agenda be noted.

6. Business Plan Update

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

6.2 The Chairman introduced the report and explained that Pension Boards were recommended to have Business Plans and drew attention to the Pensions Committee Business Plan, which was included as an appendix within the agenda item. The Board's Business Plan had been approved by the Governance Committee.

6.3 The Board queried if the outstanding guidance was likely to come to the next meeting. – The Chairman explained that the guidance still required consultation and so would be unlikely to come to the following meeting. Rachel Wood reported that the drafts were expected in the autumn. Rachel Wood further reported that the Taskforce on Climate Related Financial Disclosures (TCFD) had recently been published and it was anticipated that this would need to be adopted for the 2022/23 end of year reporting.

6.4 Resolved – That the Board note the update.

7. Administration procedures and performance

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

7.2 Tara Atkins introduced the report and highlighted the 100% compliance with the key performance indicators (KPI). Portal membership numbers were increasing, and it was explained that the employers who were not signed up to their Portal had fewer employees, and therefore less frequent forms to be provided to the administration team. McCloud work was progressing, with engagement being undertaken with all employers.

There had been a delay with receiving data from the education sector due to the impact of the holiday period.

7.3 Tara Atkins gave some background to the McCloud judgment and how firefighters had won their legal case that an underpin applied to pensions when the scheme transferred from final salary to career average was age discriminatory as it was only applied to members within ten years of their pension age. The underpin was now applied to all public sector pensions and required a calculation upon a member's retirement to ensure the better outcome was applied. Tara Atkins confirmed there was still no formal guidance on this at this stage.

7.4 Tara Atkins gave an update on Annual Benefit Statements (ABS) and that 100% had been generated for deferred members, and 99.4% for active members. There were 173 outstanding ABSs that were awaiting data.

7.5 Andrew Lowe reported that the Portal figures in the report were now out of date and that the figures were now higher.

7.6 The Board made comments including those that follow.

- Commented that it would be useful if the complaints table contained upheld data. – Tara Atkins confirmed that the Internal Dispute Resolution Procedure (IDRP) complaints had not been upheld.
- Queried what the complaints were based on if the KPIS were 100%. – Tara Atkins explained that it depended on the type of complaint. Overall response time could be an issue as it was measured by the time taken for the team to complete an activity rather than time when information is outstanding from a third party. However, the importance of managing members expectations was acknowledged.
- Asked if it was possible to include more detail on complaints. – Tara Atkins explained that very high level information was presented as the information was in the public domain and individuals should not be identifiable.
- The Chairman asked officers to consider how complaints information was presented in reports.
- Noted the number of complaints was small, and that compliments had been received.
- Queried if members were still only allowed to request one estimate a year. – Andrew Lowe explained that members could run as many estimates as they wanted on the Portal, but were limited to one a year if it required the administration team to calculate.
- Raised concerns for members who had no online access and so no way to opt out of electronic communications. – Andrew Lowe explained that whilst opt out requests were preferred in writing, this could be instructed via a phone call. Tara Atkins also advised that employers should be able to help their employees with assistance on elements such as estimates and calculations. Paper copies of ABSs could still be generated for those who had opted for paperless preference
- Commented on the impact of early retirement on pension levels and how this was communicated to members. – Tara Atkins explained that details of this were on the Portal, but recognised there was an

issue for those not registered. The Chairman highlighted that it was important not to give advice, but asked officers to look into how the impact of early retirement was communicated.

- Queried if it was possible to migrate users from the current Portal to a future Portal, if required. – Tara Atkins explained that the Portals were linked to who provided the administration service and so it was not easy to transfer across secure log in details.

7.7 Resolved – That the Board notes the update.

8. Communication Strategy

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

8.2 Tara Atkins introduced the report which outlined the key pieces of work that were being undertaken. The Board were also informed that changes were being made for communications regarding Pensions Savings Statements; and how in addition to contacting those who had breached the threshold, those close to breaching the threshold would also be contacted.

8.3 The Board made comments including those that follow.

- Queried when the actuarial valuation update would take place for employers. – Rachel Wood reported that communications were due to go out soon, and that the update would take place in October.
- Sought clarity on the members who were not on the portal and had not opted out of paper communications. – Tara Atkins confirmed that officers were looking into how to address this gap and confirmed that ABS hard copies were only issued for those who had requested them. The Board discussed that employers could publish information on their own websites to explain the portal and opt out details.
- Queried the annual allowance limit and what threshold would be considered close to warrant the new communications. – Tara Atkins confirmed that officers would be reviewing HM Revenue & Customs guidance to inform the approach taken locally.
- Noted the hyperlinks in the document and discussed the availability of the reports online. – Adam Chisnall explained that all Part I documents were available online. It was possible to sign up for Gov Delivery alerts for the Pension Advisory Board and Pensions Committee that would inform of agenda and minute publications.
- Highlighted that the bulletin documents referred to within the Employer Newsletter the Department for Communities and Local Government (DCLG) which should be corrected to Local Government Association (LGA). – Tara Atkins agreed to look into this.

8.4 Resolved – That the Board notes the schedule of Communications drawn from the Communication Policy Statement and asks officers to consider the feedback raised.

9. Regulations and Governance update

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

9.2 The Chairman introduced the report and highlighted that paragraph 3.2 should say 'There has been no visible progress…'. It was reported that the Code of Practice from the Pensions Regulator would be due soon and that the Board would be required to check compliance.

9.3 The Board queried if there was any update on the judicial judgement of the second element of the McCloud complaint. – Rachel Wood resolved to circulate information on the cost cap to the Board members.

9.4 Resolved – That the Board notes the current issues relating to Scheme Regulations and Governance.

10. Review of Pension Fund Policy Documents

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

10.2 Vickie Hampshire introduced the report and explained that it was a responsibility of the Board to check policy compliance. The included Annual Report had seen changes since consideration at the Pensions Committee, but nothing with regard to compliance.

10.3 The Board made comments on the Annual report including those that follow.

- Queried the fall in active member percentage between 2002 and 2022 and if this was linked to outsourcing. – Vickie Hampshire explained that outsourced members would be transferred into the fund via a Transfer of Undertakings (Protection of Employment) (TUPE) and so this would not have impacted active numbers.
- Sought clarity on the risk that ceased employers posed to the fund. – Vickie Hampshire explained that the actuary prepared cessation reports when an employer left the fund to calculate the exit position and plan accordingly. Rachel Wood added that employers were pooled when their outsource contract ended to consider their liabilities together.
- Queried the partially met action regarding cashflow forecasts for the Annual Report. – Vickie Hampshire explained that cashflows were not published and therefore the requirement was only partially met. Rachel Wood added that officers gave consideration to cashflow and liquidity requirements; but day to day cashflow was not forecasted. The Board queried if the cashflow activity that was undertaken would meet the 'must' requirement. Rachel Wood explained that this was not a discipline undertaken by officers to see how the cashflow work could be interpreted by the standards. Vickie Hampshire resolved to look into how contributions and benefit forecasting could be considered in the report next year.

- Questioned why there was an admitted body with zero employer contributions. – Vickie Hampshire explained that the body was on a cessation path.

10.4 Rachel Wood introduced the Funding Strategy Statement explained that the statement had been to the July Pensions Committee and would soon be sent to employers in a draft format. The actuary would then add valuation results before a final version was signed off. It was considered that the current guidance for this was the CIPFA 2016 version.

10.5 The Board queried salary growth assumptions and the impact of inflation. – Rachel Wood confirmed that the actuary looked at a long-term view and the impact on cashflow.

10.6 Resolved – That the Board notes the register of policy documents and the compliance of the Annual Report and the Funding Strategy Statement.

11. Date of Next Meeting

11.1 The Board noted that its next scheduled meeting would take place on Monday 14 November 2022 at 9.30 a.m. at County hall, Chichester.

12. 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.

13. Part II Minutes of the last meeting

The Board agreed the Part II minutes of the meeting of the Board held on 11 February 2022 and noted the accuracy of the part II minutes from the informal meeting of Board Members held on 16 May 2022, and that they be signed by the Chairman.

14. Pensions Committee Minutes – Part II

The Board noted the contents of Part II minutes from the 29 April 2022 Pensions Committee meeting.

15. ACCESS Update

The Board considered the report by the Director of Finance and Support Services from the 27 July 2022 Pensions Committee (copy appended to the signed minutes).

The Board noted the report.

16. Investment Strategy Implementation

The Board considered the report by the Director of Finance and Support Services from the 27 July 2022 Pensions Committee (copy appended to the signed minutes).

The Board noted the report.

The meeting ended at 11.40 am

Chairman

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Tony Kershaw
Director of Law and Assurance

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west sussex county council

4 November 2022

Pension Advisory Board

A meeting of the Board will be held at **9.30 am** on **Monday, 14 November 2022** 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 - 12)

   To confirm the part I minutes of the meeting of the Board held on 5 September 2022.

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 Statement** (Pages 13 - 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 Committee Minutes - Part I**

The Board is asked to note the confirmed Part I minutes from the meeting of the Pensions Committee on 27 July 2022 and the agenda from the meeting of the Pensions Committee on 2 November 2022.

a) **27 July 2022 - Part I Pensions Committee Minutes** (Pages 15 - 20)

b) **2 November 2022 - Pensions Committee Agenda** (Pages 21 - 24)

7. **Terms of Reference**

At the County Council meeting on 14 October, changes to the constitution were agreed concerning the Pension Advisory Board and the Pensions Committee:

- An amendment to state that no person may be a Pension Advisory Board member and also a member of the Pensions Committee. Any person already appointed to one must resign if successful in becoming a member of the other.

- An amendment to confirm that the Cabinet Member with responsibility for the finance portfolio is treated as ex-officio Chairman of the Pensions Committee (a non-executive function)

Background papers
None

8. **Business Plan Update** (Pages 25 - 46)

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 of the Pensions Committee.

9. **Administration procedures and performance** (Pages 47 - 56)

The Board is asked to consider the Administration Report from the 2 November 2022 Pensions Committee by the Interim Director of Finance and Support Services.

10. **Communication Strategy** (Pages 57 - 70)

Report by Interim Director of Finance and Support Services.

The Board is asked to note the schedule of communications drawn from the Communication Policy Statement and provide feedback on the communications presented at the meeting

11. **Regulations and Governance update** (Pages 71 - 80)

Report by the Chairman of the Pension Advisory Board.

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

12. **Review of Pension Fund Policy Documents** (Pages 81 - 94)

Report by Interim Director of Finance and Support Services.

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

13. **Date of Next Meeting**

The next meeting of the Board will be held at 9.30 am on Friday 10 February 2023.

Part II

14. **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).

15. **Part II Minutes of the last meeting** (Pages 95 - 96)

To confirm the part II minutes of the meeting of the Board held on 5 September 2022 (yellow paper).

16. **Pensions Committee Minutes – Part II** (Pages 97 - 102)

The Board is asked to note the confirmed Part II minutes from the meeting of the Pensions Committee on 27 July 2022 (yellow paper).

17. **Cyber Security** (Pages 103 - 106)

The Board is asked to consider the Cyber Security Report from the 2 November 2022 Pensions Committee.

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

18. **Actuarial Matters** (Pages 107 - 116)

The Board is asked to consider the Actuarial Matters Report from the 2 November 2022 Pensions Committee.

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

19. **Update from ACCESS Joint Committee activity (6 October 2022)** (Pages 117 - 136)

The Board is asked to consider the ACCESS report which went to the Pensions Committee on 2 November 2022.

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

20. **Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks** (Pages 137 - 152)

The Board is asked to consider the reporting of climate change risks report which went to the Pensions Committee on 2 November 2022.

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

21. **Investment Performance and Strategy** (Pages 153 - 160)

The Board is asked to consider the Investment Performance and Strategy report which went to the Pensions Committee on 2 November 2022.

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

To all members of the Pension Advisory Board

Unrestricted

Pensions Committee

30 January 2023

Business Plan

Report by Director of Finance and Support Services

Summary

The Pensions Committee approved its Business Plan for 2022/23 in April. The following updates are highlighted:

- The final Financial Statements for the year ended 31 March 2022 and EY's draft Audit Results Report were considered by the County Council's Regulation, Audit and Accounts Committee (RAAC) on 22 September 2022. The final approval by RAAC and Audit Results Report by EY is expected on 1 February 2023.

- The 2022 Actuarial Valuation is substantially completed, and the Fund will comply with the requirement to publish the Actuary's report by the 31 March 2023 deadline

- Several consultations are pending (on benefits, investments, and governance). A response to the climate change risk reporting was provided by the 24 November 2022 deadline (which had been shared with the Committee at their previous meeting).

A full risk matrix was presented to the Committee in April. This report includes risk themes. The following updates are highlighted:

- Work completed during the valuation period has lowered the risk relating to the Fund's Investment Strategy not being appropriate to meet the Funds liabilities and cash flow requirements.

- The risk relating to an increase in variety and number of employers participating in the Scheme has reduced following the withdrawal of the Government's white paper relating to academy conversions.

- The ongoing uncertainty around the FCA investigation and potential sale of Link has been acknowledged.

Recommendation:

(1) The Committee notes the updates on Business Plan activities for 2022/23 and risk matrix.

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1 Background

1.1 The Pensions Committee maintains a Business Plan which sets out its key priorities and how these will be delivered. This is published on the Pension Fund's webpage. Updates during the year are provided to the Committee. A refreshed Business Plan and deliverables for 2023/24 will be prepared for consideration by the Committee when it meets in April.

1.2 This report is shared with the Pension Advisory Board.

2 2022/23 Business Plan

2.1 The table below shows progress against the agreed actions for other items within the 2022/23 business plan:

Objective and Action	Q3 Update
Complete 2022 Valuation The Fund is required (under Regulations) to obtain an actuarial valuation of the assets and liabilities of the pension fund on 31 March 2022 and to set rates from 1 April 2023.	The Funding Strategy Statement draft was initially considered by the Pensions Committee in July, with updates considered in November. An initial version and update were circulated to employers for their feedback. Most employer results have been confirmed to facilitate the Fund Actuary publishing the Valuation Report by the statutory deadline of 31 March 2023.
Implement changes required as a result of the McCloud judgement The Fund is required to offer remedies to affected members to ensure they are placed in an equivalent position to members protected when the LGPS was reformed in 2015 (which were based on the age of a member).	The Government consultation on the remedy (and timescales) is anticipated imminently with the expectation that changes will need to be implemented by autumn 2023. However, further complexities are anticipated relating to Teachers who are retrospectively eligible for Local Government Pension Scheme benefits by the implementation of the McCloud remedy.
Consultations It is anticipated that there will be a number of consultations and guidance issued during the year covering benefits, investments and governance arrangements.	A consultation response was provided on governance and reporting of climate change risk in November 2022. A short consultation response was provided in January 2023 by the Director of Finance and Support Services on The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023. The response

Objective and Action	Q3 Update
	supported the detailed technical response provided by the Local Government Association and highlighted the clear expectation that the provisions in the Regulations are not be detrimental to individuals tax position, the need for clarity on the additional complexities associated with 'Excess teacher service' and the risks and concerns associated with the continued delay to regulatory amendments. Several consultations (and consultation responses) are expected.
Communications The fund is required to publish several strategy documents and disclose information about benefits and scheme administration to scheme members and others. For these to be of maximum benefit the content and presentation of these communications should be reviewed.	Officers are exploring opportunities for support with the review key communication documents and approaches.
Data The maintenance of complete and accurate records is a control to allow the fund to carry out basic functions.	Future data improvement work is being scoped by the team based on feedback from the administration team and Fund Actuary. Work is in progress to support the End of Year process with employers which is a key control to ensure that the Fund holds accurate and complete data prior to the publication of Annual Benefit Statements.

Objective and Action	Q3 Update
Annual Report and Accounts The Pension Fund is required to produce an Annual Report in line with statutory deadlines and considering statutory guidance.	This was published prior to the December 2022 Statutory deadline) (full report published (PDF, 2.4mb) and summary (PDF, 304kb). The final Financial Statements for the year ended 31 March 2022 and EY's draft Audit Results Report were considered by the County Council's Regulation, Audit and Accounts Committee (RAAC) on 22 September 2022. The final approval by RAAC and Audit Results Report by EY have been delayed until the County Council's Financial Statements (which the Pension Fund's Statements form part of) are approved. It is now anticipated that this will be done at a meeting of RAAC on 1 February 2023.
Accounting System The County Council is changing its core accounting system to Oracle.	Officers continue to work with colleagues across the County Council to ensure appropriate processes, procedures and reporting. It is anticipated that the accounting system will be able to 'go live' during 2023.

3 Update on Training

3.1 A Training Strategy has been established to support the Pension Committee and Pension Advisory Board members with the necessary skills and knowledge to act effectively in line with their responsibilities. The Constitution sets out that members of the Pensions Committee are required to acquire and maintain an appropriate level of expertise, knowledge and skills as set out by CIPFA in order to remain members of the Committee and the demonstration of officer and Committee knowledge is important for the Fund to maintain its professional investor status.

3.2 Appendix A shows the training completed up to 31 December 2022. Members should continue to ensure they notify officers when they attend external training, so it can be recorded appropriately. Future external training available has been summarised below –

Event	Date	Location
LGA LGPS Governance Conference	19-20 January 2023	Cardiff Online

Event	Date	Location
LAPF Strategic Investment Forum	2 February 2023	London
SPS Local Authority Pension Funds: Current Investment Issues	9 February 2023	London
PLSA Local Authority Conference	26-28 June 2023	Gloucestershire

4 Update on Risks faced by the Fund

4.1 A full risk register was provided to the Pensions Committee in April 2022. The full risk register has been reviewed by officers and individual risk scores have been updated where appropriate. The update on risks by theme are attached (Appendix B). The following are highlighted:

- RT4 relating to the Fund’s Investment Strategy being appropriate to meet the Funds liabilities and cash flow requirements has been reduced in acknowledgement of work carried out as part of valuation.

- RT5 relating to resources has not changed but officers are conscious of changes to the West Sussex team which could have a potential medium-term impact.

- RT12 relating to the increase in variety and number of employers participating in the Scheme has been reduced reflecting the Government decision to withdraw the white paper relating to academy conversions.

- RT13 on cyber has been updated to reflect that a successful cyber-attack could result in service disruption, financial or data loss

- RT17 ongoing uncertainty in relation to the FCA investigation of Link Fund Solutions and their potential sale has been recognised.

5 Update on Audit and Controls

5.1 Internal audit work should ensure that adequate internal controls are in place and operate effectively. To supplement its own audit framework the County Council receives internal audit reports from its administration provider, Hampshire County Council. Audit work completed and planned for the year is summarised in Appendix C.

6 Consultation, engagement and advice

6.1 N/A

7 Finance

7.1 An allowance for the Fund's administration expenses is included within employer contribution rates.

8 Risk implications and mitigations

8.1 Covered in main body of report and appendices.

9 Policy alignment and compliance

9.1 N/A

Taryn Eves
Director of Finance and Support Services

Contact Officer: Rachel Wood, Pension Fund Strategist, 033 022 23387, rachel.wood@westsussex.gov.uk

Appendices
Appendix A – Training Log
Appendix B – Risk Themes
Appendix C – Internal Audit Work Completed / Planned

Background papers
None

Recommended Training
None

Training Log

Hymans LGPS Online Learning Academy (LOLA) Training on 31 December 2022

It is considered that the Hymans LGPS Online Learning Academy (LOLA) meets the CIPFA framework, and all members of the Committee and Board have been asked to complete the LOLA training.

Hymans updated LOLA Module 6 – Current Issues in June to include sections on Climate Change and Task Force on Climate-Related Financial Disclosures (TCFD) and an Introduction to Cyber Risk.

Committee

Module	**Intro (1)**	**Govern. (2)**	**Admin (3)**	**Funding (4)**	**Invest. (5)**	**Current Issues (6)**
Cllr Hunt	Complete	In Progress				
Cllr Condie	Complete	Complete	Complete	Complete	Complete	In Progress
Cllr Dennis						
Cllr Elkins	Complete	In Progress	In Progress	In Progress	In Progress	In Progress
Cllr Jupp						
Mr. Kipling	Complete	Complete	Complete	Complete	Complete	In Progress
Mr Stretton	Complete	Complete	Complete	Complete	Complete	In Progress
Cllr Turley	Complete	Complete	Complete	Complete	Complete	In Progress
Cllr Urquhart	Complete	Complete	Complete	Complete	Complete	In Progress
Mr Wilding						

Board

Module	**Intro (1)**	**Govern. (2)**	**Admin (3)**	**Funding (4)**	**Invest. (5)**	**Current Issues (6)**
Mr Scales	Complete	Complete	Complete	Complete	Complete	In Progress
Ms Caney	Complete	Complete	Complete	Complete	Complete	In Progress
Mr Cohen	Complete	Complete	Complete	Complete	Complete	In Progress
Mr Curry						
Ms Kadwell	Complete	Complete	Complete	Complete	Complete	In Progress
Ms Martin	Complete	Complete	Complete	Complete	Complete	In Progress
Mr Walton	Complete	Complete	Complete	Complete	Complete	In Progress

Notes:

1. "Complete" indicates that each subject within the module has been accessed and the assessment has been completed. "In progress" indicates that some or all the materials within the module have been accessed but the assessment is not yet complete. No entry indicates that the materials within the module have not yet been accessed.
2. As Module 6 will be updated regularly it will only show as "In Progress".

3. All members of the Pensions Team have completed all LOLA modules.

LGA Fundamentals

The three sessions (online or in person) provide a scheme overview and covers current issues in relation to administration, investments and governance of the LGPS.

Committee

Module	Session 1	Session 2	Session 3
Cllr Hunt		Complete	
Cllr Condie	Complete	Complete	Complete
Cllr Dennis	Complete	Complete	Complete
Cllr Elkins			
Cllr Jupp	Complete	Complete	Complete
Mr. Kipling			
Mr Stretton			
Cllr Turley	Complete	Complete	Complete
Cllr Urquhart			
Mr Wilding	Complete	Complete	Complete

Board

Module	Session 1	Session 2	Session 3
Mr Scales			
Ms Caney			
Mr Cohen			
Ms Kadwell	Complete	Complete	Complete
Ms Martin	Complete	Complete	Complete
Mr Scanes			

External Conferences

The following external conferences have been attended this year by Committee Members:

	Event	Date
Cllr Hunt	Secure Income & Infrastructure Investment for Pension Funds	April 22
Cllr Condie	LGPS Live - Inflation is making headline news LGPS Live – Pitfalls of Governance SPS – Local Authority Pension Funds: Sustainable investments and other structural themes	June 22 Sept 22 Nov 22
Cllr Dennis	Bailie Gifford – Investing in the Anthropocene	Nov 22

	Event	Date
Cllr Elkins	Bailie Gifford – Investing in the Anthropocene	Nov 22
Cllr Jupp	Bailie Gifford – Investing in the Anthropocene	Nov 22
Mr Kipling	LGPS Live – SAB Scheme Annual Report LGPS Live - Inflation is making headline news LGPS Live – Pitfalls of Governance Institute and Faculty of Actuaries presentations (infrastructure investment, inflation, and pensions dashboards) Barnett Waddingham - investment megatrends Mercer - the 2022 actuarial valuation	May 22 June 22 Sept 22
Cllr Urquhart	PLSA LGPS Conference	June 22

Internal Training

The Committee and Board received internal training on actuarial matters and the Committee received internal training on fund manager equity strategies and longevity training. Committee and Board members were also invited to attend the RAAC Financial Statements Briefing which covered the Pension Fund accounts. It was attended by six Committee Members and five Board members. Operator and Depositary training has also been provided to both Committee and Board with nine Committee members and all Board members attending.

Pensions Regulator Toolkit

Although this is a requirement for Board members, it is desirable that Committee members also complete the Toolkit to maintain parity. All Pension Advisory Board members, Mr. Stretton and Mr. Kipling have completed all Pension Regulator’s Toolkit modules.

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Risk Themes

Ref	**Risk Theme**	**Action / Update**	**Oct-22**	**Jan-23**
RT4	The Fund Investment Strategy is not appropriate to meet the Funds liabilities and cash flow requirements.	Asset Liability Modelling carried out as part of the valuation process. Investments made into income generating assets. Size and pattern of contributions to feed into cashflow monitor and projections.	Amber	Green
RT5	Insufficient resources to comply with the Administering Authority's Regulatory responsibilities and ability to deliver the business plan.	Reviewing practices and processes to maximise efficiency. Number of high intensity projects currently on going that need to be balanced with BAU and reduced resources. Work underway to consider all work deliverable and put in place additional support if appropriate.	Amber	Amber
RT6	Poor quality data resulting in error and misstatement.	Positive feedback from Hymans on substantial improvements in data. Preserved refund project being scoped by administration team. Data improvement to be actively reviewed with feedback from Fund Actuary following valuation.	Green	Green
RT7	Officer, Committee and Board knowledge and understanding resulting in poor decision making, disengagement on key issues and loss of professional investor status.	Training provision reviewed and amended to reflect membership of Committee, Board and needs of officers. External training purchased.	Amber	Amber
RT9	Failure to secure value for money through managing contracts with third parties	Appropriate review and market tests in place for contracts managed by WSPF.	Green	Green
RT11	Conflict of interest for members and employers	Specific Pension Fund Conflict of Interest Policy will be required following implementation of SAB Good Governance project. Consultation on guidance expected soon.	Green	Green

Ref	Risk Theme	Action / Update	Oct-22	Jan-23
RT12	Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	Government decision to withdraw the white paper reduces pressure on Fund regarding academies. Known changes to employers and payroll providers being monitored by officers.	Red	Amber
RT13	There is a risk of a successful cyber-attack directly from external threats; or indirectly because of members or staff falling prey to social engineering or phishing attacks. The potential outcome may lead to service disruption, financial or data loss.	Officers are taking appropriate advice in considering how risk can be managed/mitigated. Liaising with internal IT team and external providers to understand procedures in the event of cyber-attack.	Red	Red
RT14	Fund not able to implement changes required as a result of McCloud judgement due to insufficient resources, incomplete information held by employers and continued delay from Government on remedy.	Awaiting Government consultation on remedy. Expected soon. Some teachers are now retrospectively eligible due to which increases the complexity and resource. Team proactively working with software providers and employers to upload data available in readiness for Government regulations.	Amber	Amber
RT15	Ability of asset pool to allow participating authorities to execute their locally decided investment strategies.	All liquid assets are now invested via the ACCESS ACS. Consultation on pooling expected soon.	Amber	Amber
RT16	Political environment (locally or nationally) impacts on funding and/or investment strategy	Full impact of Public Service Pensions and Judicial Offices Bill and Levelling Up white paper is difficult to quantify until further information/guidance is received from Government and Scheme Advisory Board. Awaiting changes to regs on Exit Cap, McCloud etc. Expecting consultation in soon.	Amber	Amber

Ref	Risk Theme	Action / Update	Oct-22	Jan-23
RT17	Reliance on one contract for majority of investment management.	The situation in relation to the ongoing FCA investigation into Link Fund Solutions and the potential sale are being monitored and officers are engaging with professional advisers to understand and quantify the impact. At this stage the impact is unknown.	Amber	Red

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Internal Audit Results / Planned Activity

Key Area	Update
National Fraud Initiative: Full exercise undertaken October 2020 and completed within 6 months and to be undertaken again in October 2022.	The data for the 2022/23 NFI was uploaded to the Cabinet Office. The matches are expected to be provided in late January and a final report is due by 31 March 2023.
Member Deaths: To provide assurance that systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient, with the risk of overpayments minimised.	Testing complete – close of audit meeting scheduled. Scoping in progress on further testing covering the processes and controls where HPS interact with the WSCC pensions team further testing.
Pension Transfers: To provide assurance over the processes and controls where HPS interact with the WSCC pensions team.	A substantial assurance opinion was given within the initial audit work. Scoping in progress on further testing.
UPM - Cyber Security: To provide assurance over the Cyber Security arrangements for the Pension Administration (UPM) application.	Due by 31 March 2023.
Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients with all changes to on-going pensions being accurate and timely.	Scoping session complete and testing in progress.
Pension Transfers: To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes managed by HPS. This has been previously reported to Pensions Committee.	This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following: • Roles and responsibilities are clearly defined and supported by policies and procedures. • All transfers are supported by appropriate documentation, processed promptly and accurately once all necessary checks have been completed in line with legislative requirements.

Key Area	Update
	• All transfers are to legitimate schemes and have been appropriately authorised. • Pension contributor's record is appropriately updated to reflect transfer action and ensure the correct future benefits are received. • There is evidence that the member has understood the risks of transferring out of the scheme. A substantial assurance opinion was given.
Pensions, payroll and benefit calculations: Annual review to provide assurance that systems and controls ensure that lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; all changes to on-going pensions are accurate and timely; and pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies. This has been previously reported to Pensions Committee.	This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following: • Only valid pensioners and pensions are paid. • Pension benefit calculations are correctly calculated and set up on UPM. • Changes to payroll, including bulk data uploads are valid, authorised, timely and accurate. • Payrolls are run accurately, completely and at the correct time. • Payments are recorded promptly and accurately in the main accounting system. • Payroll deductions are paid over to relevant bodies accurately and promptly and are accounted for correctly. A substantial assurance opinion was given.
Treasury Management: Cash flow is adequately planned, with surplus monies invested in line with the Council's Treasury Management Strategy. This has been previously reported to Pensions Committee.	This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following: • Treasury management arrangements are formalised through effective strategies, policies, and procedures.

Key Area	Update
	• Investment and borrowing decisions are documented and approved, and related transactions are recorded, monitored, and accounted for correctly. • Management information enables effective monitoring and reporting of treasury management performance against the treasury management strategy objectives. A substantial assurance opinion was given.

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Unrestricted

Report to Pensions Committee

30 January 2023

Actuarial Valuation 2022

Report by Director of Finance and Support Services

Summary

The Pension Fund is required to undertake an actuarial valuation as of 31 March 2022. Based on the approach and assumptions within the Funding Strategy Statement the Fund Actuary has estimated an improvement in the reported funding level since 31 March 2019 from 112% to 125%. This means the Pensions Committee can meet their objectives of ensuring sufficient assets are available to meet the cost of benefits accrued by members whilst keeping contribution rates stable. Most employers have had improvements in their funding position – and there is downward pressure on contributions for most employers.

An updated Funding Strategy Statement was issued to employers on 4 January 2023 following the Committee's feedback on employer covenant, ill health early retirement strain costs and exit valuations (i.e. how the discount rate is determined for the ongoing funding and cessation bases). The version issued to employers refined the approach to ill health early retirement strain costs further to outline the Fund's preference in respect of payment of strain costs upfront but acknowledging that alternatives will be considered dependent on employer covenant.

It is proposed that the Funding Strategy Statement is updated prior to publication to reflect any updates that may be required by Scheme Advisory Board or GAD (such as any clarifications on the requirements of TCFD).

Recommendations

(1) The Committee note the valuation outcome.

(2) Feedback is provided by the Committee on the Funding Strategy Statement prior to its publication on 31 March 2023.

(3) The Committee approve that the Director of Finance and Support Services can agree further changes required to the Funding Strategy Statement between the meeting date and 31 March 2023.

1 Background

1.1 Of the six main public service schemes, only the Local Government Pension Scheme (LGPS) is funded. Each LGPS fund is subject to a valuation at local level every three years to each fund has sufficient assets to meet its liabilities and to set employer contribution rates.

1.2 The Pensions Committee's Terms of Reference include the consideration of and response to key scheme funding issues and monitoring the Fund's performance.

2 2022 Actuarial Valuation

2.1 The Pension Fund is required to undertake an actuarial valuation as of 31 March 2022.

Funding Strategy Statement

2.2 The Pension Committee considered the draft Funding Strategy Statement at its meeting in July 2022 and in November it provided feedback on proposed updates relating to employer covenant, ill health early retirement strain costs and exit valuations.

2.3 Following further discussion with the Fund Actuary the approach to ill health early retirement strain costs was further refined to acknowledge that, whilst it was a preference for payment of costs to be as a lump sum, employers may have a stronger covenant (whether as a result of a good funding position, or another guarantee) which would also allow for a conversation with the Fund about any payment terms around strain costs and the management of liabilities. Where employers choose, ill health insurance is available.

2.4 A further version of the Funding Strategy Statement was circulated to employers for comments on 3 January 2023. The latest version is attached (Appendix A).

3.1 On 29 November 2022, the Office for National Statistics ('ONS') reclassified further education corporations, sixth form college corporations and designated institutions in England as public sector bodies, forming part of Central Government. The Department for Education has advised that no action is required by colleges in respect of the local government pension scheme, and it is now not clear whether the Government will provide any guarantee to fund any exit liabilities for a college (if funds are not secured elsewhere) in the same way it has to Academies. Therefore, the rates for colleges will be held as though they do not have a Government guarantee (in line with the Funding Strategy Statement for Scheduled Bodies).

Climate related Risks

3.2 The Fund Actuary has taken consideration of climate-related risks and opportunities in his advice as part of any actuarial valuation. Until further guidance is provided by the Scheme Advisory Board or GAD about LGPS requirements it is proposed that this is reflected in the Fund's risk register which will set out the steps being taken on climate change including the work being done on reporting by managers, the consideration ESG is given when determining manager/mandates and the scenario testing that is undertaken when making funding and investment strategy decisions. The full risk register will be considered by the Committee in April 2023.

Actuarial Report and Rates and Adjustment Certificate

3.3 Based on the approach and assumptions within the Funding Strategy Statement the Fund Actuary has estimated and improvement in the reported funding level since 31 March 2019 from 112% to 125%. This remains unchanged. The Fund Actuary is preparing his Actuarial Report (which includes the Rates & Adjustment Certificate) for publication by 31 March 2023.

3 Consultation, engagement and advice

3.4 N/A

4 Finance

3.5 Actuarial costs are included in the Fund's governance.

5 Risk implications and mitigations

3.6 Risks associated with this report are covered within the Business Plan agenda item and will be reflected within the full risk register will be considered by the Committee in April 2023.

6 Policy alignment and compliance

3.7 N/A

Taryn Eves
Director of Finance and Support Services

Contact Officer: Rachel Wood, Pension Fund Strategist, 033 022 23387, rachel.wood@westsussex.gov.uk

Background papers
None

Appendices
Appendix A – Funding Strategy Statement

Recommended Training
N/A

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Agenda Item 7
Appendix A

Funding Strategy Statement

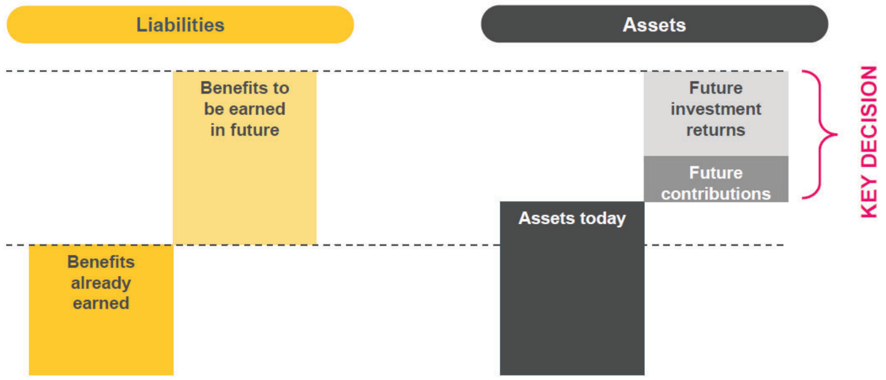
west sussex county council

lgps | Local Government Pension Scheme

Background

The LGPS is a funded pension scheme, with employee benefits guaranteed by the LGPS Regulations and funded through a combination of employee contributions (fixed nationally), investment returns and employer contributions.

The West Sussex Pension Fund manages a substantial investment portfolio which is there to help pay for benefits to members and their dependents now, and in the future (liabilities). The balance of cost between the value of member benefits, employee contributions and the return on investments is paid for through employer contributions. This is illustrated below. The extent to which liabilities are funded through contributions versus investments is a key decision.



This strategy has been prepared by the Fund 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 2022 Actuarial Valuation and is effective from 1 April 2023 and applies to all participating employers. However, at the time of this document being prepared, there is uncertainty in relation to the LGPS. These are described below along with the approach being adopted by the Pension Fund in response:

Uncertainty	Consideration
The McCloud case: In 2018 the Court of Appeal ruled that the 'transitional protection' offered to some members as part of previous pension reforms amounted to unlawful discrimination (directly on grounds of age and indirectly on other grounds). Regulatory changes are required as a result. to comply with the ruling.	In the absence of new Regulations, DLUHC issued a letter setting out instructions on how McCloud should be allowed for in the 2022 valuation. In particular, it sets out who the Actuary should assume has McCloud protections in order to make allowances when valuing the liabilities.
The HM Treasury and Scheme Advisory Board "cost control mechanism": These mechanisms were introduced as part of the previous pension reforms with the intention to maintain a process for managing the cost of the scheme between members and employers. There will be a judicial review into whether McCloud should be included as a 'member cost' within the 2016 HM Treasury cost control mechanism. If it is deemed McCloud is not a member cost, then it is likely benefit changes will be required from 1 April 2019.	The 2022 valuations will proceed on the basis of the current benefit and member contribution structure for the purposes of valuing the liabilities, unless advised differently by DLUHC or SAB. As a result, employers should collect employee contributions on the basis of current Regulations

Consultation Outcomes: Several consultations or Government decisions remain outstanding which may affect the LGPS. These include the outcome of the Government's Fair Deal II Consultation, which may introduce new classes of employer into the LGPS and the rectification of issues associated with Guaranteed Minimum Pensions.	Liabilities on 31 March 2022 will be based on the Scheme presently in place. The Fund 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 Valuation Approach

The value of member benefits and the employer contribution rates required are calculated by the Fund Actuary. The Pensions Committee have agreed the following objectives:

- Keep employer contributions **affordable and stable** through the adoption of an investment strategy which balances risk and return, the use of reasonable assumptions to measure~~s~~ liabilities and through contribution stabilisation approaches for certain employers.
- Understand the diversity of the Pension Fund's employers and ensure (as far as possible) **each employer covers their liabilities for member / dependent benefits as they fall due** for payment by maintaining separate accounts for each employer, adopting different funding approaches to different employer groups and taking a prudent, long term view
- **Be transparent and consistent** in the strategy and its application

To achieve these objectives, the Fund Actuary calculates and sets employer contribution rates differently for different employers. The following sections describe the general approach taken with more detail by employer type in the Appendix.

To support these objectives, the Fund's risk management framework considers how it can manage risks that are most likely to impact the funding strategy. More context is in Appendix 4.

Valuing liabilities for member / dependent benefits as they fall due (the "funding target")

To ensure it holds sufficient assets to be able to pay all its members benefits the Pension Fund 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%.

To place a value on these future and past service benefits (the liabilities) the Actuary will make both financial and demographic assumptions about the future.

Financial assumptions include investment returns, salary growth and pension increases;

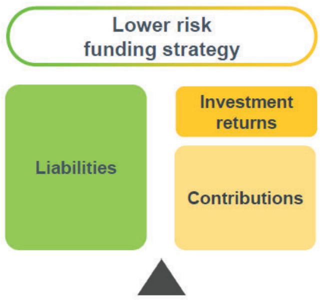
Demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

The combination of all assumptions becomes the funding target. A more optimistic funding target might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic funding target will give lower liability values and lower employer costs. A more prudent funding target will give higher liability values and higher employer costs. A summary of the assumptions applied are shown in Appendix 2.

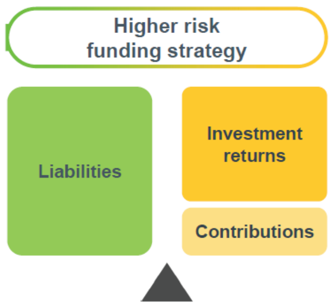
The funding target is adjusted to reflect employer characteristics – taking into account for example, whether an employer has any guarantees or whether an employer will eventually leave. The funding target for each type of employer is set out in Appendix 1.

Funding Target

The funding target affects how much the Fund needs to hold now to provide members' pensions in the future.



The more prudent "~~gilts~~ cessation basis" ~~will~~ is determined such that there will be at least 95% chance of the investment strategy delivering the return assumption over 20 years. ~~use the return on government bonds for the discount rate.~~ This is used for higher risk ~~or~~ , shorter term or exiting employers where market volatility could impact short term funding levels ~~and the ability of an employer to meet any exit debt~~. It means that the Fund needs to hold more money now to provide member pension benefits in the future, because it cannot rely on investment returns to make up any funding gap.



The more optimistic "ongoing funding basis" is determined such that there will be at least 75% chance of the investment strategy delivering the return assumption over 20 years. ~~allows for the greater return which is expected to be generated from the Fund's equity-type investments.~~ This is used for secure, ~~longer term~~longer-term employers because over time the Fund has more certainty that investment returns can make up a funding gap.

A phasing from the ongoing funding basis to the ~~gilts~~ cessation basis may be used for employers approaching the end of their participation in the Fund (i.e. more than four years away).

Setting employer contributions

The balance of cost between the value of member benefits, employee contributions and the returns on investments is paid for through employer contributions. Employer contributions are set locally by the Fund Actuary and are normally made up of two elements:

1. **Primary Rate:** 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.
2. **Secondary Rate:** Any adjustment to the primary rate to reflect the individual circumstances of each employer, 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.

As with the "funding target", employer contribution rates depend on employer characteristics. These characteristics determine the period over which the employers funding target should be met and the certainty required that the employer will achieve their funding target. The arrangements for each type of employer are set out in Appendix 1.

Time Horizon	Contributions are set to meet each employer's funding target by the end of their respective time horizon. Employers may be given a lower time horizon if they have a less permanent anticipated membership, they are approaching the end of their participation in the Fund or they 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).
% Likelihood of meeting the funding target	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 and therefore the Fund applies likelihoods depending on the nature and security of an employer. Typically, a higher required likelihood (for employers with less permanent anticipated membership, those approaching the end of their participation or those who do not have a guarantor) will give rise to higher contribution rates. Employers who are open to new entrants are considered to be long term and a lower likelihood may be appropriate. In general, the Fund will require all long term employers to have at least a 66% chance of being fully funded by the end of their time horizon.
Smoothing	To achieve stability in contribution rates for employers who are relatively low risk or who provide appropriate security, the Fund may (at its absolute discretion) smooth changes in contributions. This can be done through capping contribution rate changes (stabilisation), phasing contribution changes, extending time horizons (maximum applied is 20 years), pooling employers, or limiting circumstances where negative secondary rates might apply. However, this can 'hide' the true contribution rates and employers should be aware that they will still be expected to fund their own long-term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) and paying a smoothed rate in the short term may impact on the return on an employer's assets meaning it takes longer to reach full funding, all other things being equal.

Covenant Analysis

The strength of an employer covenant is an important consideration within the Funding Strategy Statement and the setting of employer contribution rates. It is therefore important to review the strength of covenants from all employers participating in the Scheme.

The Fund may appoint an independent covenant adviser to support the Actuarial Valuation. The advice will cover indicators including an employer's reported earnings and their reported balance sheet.

Where the advice indicates an employer is higher risk (on both balance sheet and / or earning indicators) their contribution rate reductions will not typically be permitted at an actuarial valuation if the employer does not have security in place to the satisfaction of the Administering Authority. Where an employer believes their covenant has improved, the employer can request a review of their contribution rate be reviewed in line with the terms of this FSS.

Adjusted Employer Contribution

The certified rate within the Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report, is the minimum employer contribution due for the next three years – or until the next valuation. In addition:

- Employers can opt to pay contributions at a higher rate if they choose and this will be taken into account by the Actuary at subsequent valuations.
- ~~All~~ Some employers are required to make an upfront payment of strain charges wherever an employee retires before reaching Normal Retirement Age (~~except~~ including for as a result of ill health early retirements). This is covered in more detail in the following section.
- ~~Employers may be required to make an upfront payment for strain charges whenever an employers retires before reaching Normal Retirement Age as a result of ill health.~~
- Employer contribution rates may be amended by the Fund between valuations for any "significant change" to the liabilities or covenant of an employer. Significant changes are considered to be where it is likely that the employer will become an exiting employer, the employer has incurred costs following an award of additional pension,[1] there are changes to the LGPS benefit structure, an employer's liabilities, membership or covenant has changed significantly since the last valuation or where an employer has failed to pay contributions. It should be noted that any review may require increased contributions.
- An employer may request a review of contributions between valuations, provided they set out their reasoning and they cover all costs incurred by the Fund in relation to their request. Market volatility and changes to asset values will not be considered as a basis for a change in contributions outside a formal valuation, except where an employer is nearing cessation. It should be noted that any review may require increased contributions.
- Some employers may elect to make an advance / lump sum payment for their employer contributions at the start of a financial year, or valuation period. In these circumstances a contribution rate adjustment reflecting appropriate actuarial discounts may apply (this is set out in the Rates and Adjustment Certificate). However, employers adopting this approach should acknowledge the risks involved, particularly in respect of the impact of investment returns during the inter-valuation period. This is subject to approval by the Fund, Actuary, employer and their auditors.

[1] regulation 31(3) of the LGPS regulations 2013

Upfront payment of strain charges

In some circumstances members are entitled to early payment of their retirement benefits.

Redundancy	Members (over 55) are entitled to receive unreduced pension benefits if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of redundancy or business efficiency. The eligibility for an early retirement is set out within the LGPS regulations. For all employers, where a member retires with an unreduced pension before reaching their earliest retirement age, the employer is required to pay an upfront additional contribution (strain). An employer can make a request to the Chief Finance Officer to consider any exceptions (such as spreading the payment over a set period).
Ill health	Members (at any age) are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill health or infirmity of mind or body before the member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by an employer should be made on the opinion of the Independent Registered Medical Practitioner and other relevant evidence. For Councils and non-uniformed Police, where a member retires with an unreduced pension before reaching their earliest retirement age this will be considered a Membership Experience item by the Fund Actuary at the next valuation (e.g., The impacted employer will see a reduction to their surplus / increase in their deficit all other things being equal which would then be recovered through normal employer contributions in the future). However, an upfront additional contribution (strain) can be paid to the Fund by the employer if preferred. For all other employers where a member retires with an unreduced pension before reaching their earliest retirement age the preference is for the employer to pay an upfront additional contribution (strain) but alternatives will be considered based on the employer's covenant. Employers can take out insurance to protect themselves against the strain cost.

Early retirement strain factors are determined by the Fund Actuary and are used by the Fund when calculating early retirement strain costs set out above. The Fund's approach is to review factors at each valuation for consistency with the assumptions set out in the FSS.

The strain cost calculations make allowance for:

- Any uplift to a member's pension (in cases of ill health)
- The earlier start date for the payment of benefits, and therefore the longer expected payment period
- The contributions and investment returns missed, as funds have been applied to pay early benefits rather than retained and invested.

Exiting Employers

The Fund seeks to manage employer funding positions and contribution rates based on the time period over which they are actively participating in the Fund. However, when an employer exits the Fund will instruct the Fund Actuary to undertake an actuarial assessment of the assets and liabilities at the exit date.

An employer may exit the Fund because it no longer has active members participating, it becomes insolvent, is wound up or is liquidated or it breaches its obligations under the Admission Agreement (if relevant).

Full details on how each employer's position on exit is determined are set out in Appendix 1.

Suspension Notice

In some circumstances a Suspension Notice may be put in place (at the discretion of the Fund) to defer an exit debt for up to three years if the employer is expected to acquire one or more active members in the Fund over the period. It should be noted, the employer may be required to pay secondary contributions during the period of the suspension notice. If the suspension notice lapses and the employer has not acquired one or more active members in the Fund, then an exit debt may become payable.

Cessation Valuation

When an employer exits, the Fund will instruct the Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus in respect the exiting employer's current and former employees.

The approach adopted will look to protect other employers in the Fund from the likelihood of any material loss emerging in future and take into account future funding sources, guarantees or pooling arrangements.

The Fund Actuary's valuation will either certify an exit debt (deficit) or an excess of assets in relation to the employer's liabilities (surplus).

Exit debt (deficit)

Where there is a deficit, the normal approach is for payment of this amount in full as a single lump sum payment from the exiting employer or their guarantor. However, if this is not possible there are two options which could be considered by the Fund as summarised on the following page. Full details on how each employer's position on exit is determined are set out in Appendix 1.

Option	Application
Deferred Debt Agreement	An employer may defer their obligations to make an exit payment and continue to make secondary contributions as determined by the Fund Actuary. This will be considered at an employer's request provided they are expected to be a going concern and have a sufficient covenant (or security). It should be noted that the employer will remain exposed to all pension risks until final settlement is made. Employer's requesting a deferred debt agreement must meet the Fund's costs associated with considering, entering into and monitoring the agreement.
Payment Plan	An employer may be allowed to make regular payments to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The appropriate period will be no longer than three years. It should be noted that the employer's deficit is crystalised at their exit date and are therefore they are not exposed to any pension risks during the repayment period. Interest at the discount rate used to value the liabilities in the cessation valuation will apply at the discretion of the Penson Fund.

Any unpaid amounts will fall to any related scheme employer (for admission bodies) or multi-academy trust (for academies). Where there is no related scheme employer or multi-academy trust, any unpaid amounts will be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund or instead be reflected in the contribution rates set at the next formal valuation following the exit date.

Exit Credit (Surplus)

Where there is a surplus the Fund will determine, at its absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations. The following are considered relevant:

- The extent to which there is an excess of assets in the Fund over the employer's liabilities;
- The proportion of excess assets which has arisen because of the value of the employer's contributions;
- Any representations made to the Fund by the exiting employer, the scheme employer in connection with that body and (where the employer is an admission body) any of the following:
    - a person who funds the admission body in whole or in part, the connected scheme employer
    - a person who owns, or controls the exercise of the functions of the admission body; and
    - the Secretary of State but only in the case of specific admission bodies (such as those established by or under any enactment and providers of probation services).

- any other relevant factors which may include:
  - the date that the employer joined the Fund
  - the level of pensions risk the employer has taken on during its period of participation (including pooling arrangements the employer has benefited from)
  - any agreements on the treatment of the employer on exit~~;~~ and/or
  - whether there are any outstanding sums owed to the Fund;

The amount of the payment will be determined by the Director of Finance and Support Services, per the County Council's Constitution. The reasons for the decision will be documented.

If an exit credit is determined to be payable it must be paid within six months of the date on which the employer ceased to participate in the Fund, six months from the date their deferred employer arrangement ended, or such longer time as the Fund and exiting employer agree. Once the exit credit has been paid, no further payments are due from the Authority to the exiting employer in respect of the surplus. [2]

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the Regulations would apply. The Pensions Ombudsman also has jurisdiction to hear complaints of maladministration against LGPS administering authorities, if the internal dispute resolution process is unsuccessful.

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 by the 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 Fund Actuary to the other employers participating in the Fund at successive formal valuations.

[2] Exit credits are to be authorised payments in accordance with section 176 of the Finance Act 2004 (payments by public service pension schemes).

Bulk transfers

Bulk transfers of members take place where ten or more members transfer to another Fund'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 Fund 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.

The Fund 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 Fund 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 Fund 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 Fund may require a higher transfer amount or immediate contribution from the employer(s) involved.

APPENDIX 1: Funding Strategy by Employer Group

The following pages set out how the Funding Strategy is applied to different employer groups.

Application to Scheduled Bodies Summary

	Local Authority / Police	Academies	Town and Parish Councils	Other Scheduled Bodies
General	Open, long term and tax raising	Open, long term (with reliable funding) and government guarantee	Open and long term	Open
Opening Position	Case by case Individual rate	Share of assets and liabilities from West Sussex County Council	Case by case but usually no assets or liabilities	Case by case Individual rate
Max Time Horizon	20 years	20 years	20 years	Future working lifetime (subject to max 20 years)
Min Likelihood	66%	70%	66%	70%
Funding Target	Ongoing basis	Ongoing basis	Ongoing basis	Ongoing basis
Smoothing	Stabilisation	Pooled (if agreed) Phasing in rate changes or minimum rate in limited circumstances	Pooled (default) Phasing in rate changes or minimum rate in limited circumstances.	Phasing in rate changes or minimum rate in limited circumstances
Exit Basis	~~Gilts~~ Cessation basis	Cessation ~~Gilts~~ basis	Cessation ~~Gilts~~ basis	Cessation ~~Gilts~~ basis
Suspension Notice	Considered	Considered	Considered	Considered
Exit Payment Terms (Deficit)	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement	Lump sum (default), payment plan or deferred debt agreement
Ill Health	Membership experience item (default) or upfront, additional contribution ('strain')	Preference for an ~~Upfront~~upfront, additional contribution ('strain') but alternatives	Preference for an ~~Upfront~~upfront, additional contribution ('strain') but alternatives	~~Membership experience item or~~ Preference for an upfront~~,~~ additional contribution ('strain') but

		considered based on covenant.	considered based on covenant.	alternatives considered based on covenant. ~~dependent on employer~~r

Application to Admission Bodies Summary

	Pass Through	Guarantor	No Guarantor
General	(Normally) closed, shorter term and no assets or liabilities	(Normally) closed, shorter term and related scheme employer guarantee	Shorter term
Opening Position	No assets or liabilities Individual rate unless otherwise agreed with related scheme employer	Fully funded on an ongoing funding basis unless agreed otherwise Individual rate unless otherwise agreed with related scheme employer	Case by case Individual rate
Max Time Horizon	Same as letting authority	Shorter of future working lifetime or contract length (subject to maximum of 20 years)	Shorter of future working lifetime or contract length (subject to a maximum of 20 years)
Min Likelihood	Same as letting authority	Same as letting authority	50%-75% dependent on funding Target
Funding Target	Same as letting authority	Ongoing basis	Cessation ~~Gilts~~ basis or blended depending on time horizon
Smoothing	None	None	None
Exit Basis	No assets or liabilities	Ongoing basis	Cessation ~~Gilts~~ basis
Suspension Notice	N/A	Very limited circumstances	Very limited circumstances
Exit Payment Terms (Deficit)	N/A	Lump sum (default), payment plan or	Lump sum (default), payment plan or

		deferred debt agreement	deferred debt agreement
Ill Health	Same as letting authority	Preference for an ~~U~~upfront, additional contribution (‘strain’) but alternatives considered based on covenant	Preference for an ~~Upfront~~upfront, additional contribution (‘strain’) but alternatives considered based on covenant

APPENDIX 1A: Funding Strategy for Local Authorities and Police

Opening Position

Scheduled Bodies are listed in LGPS Regulations and therefore, it is unusual for new Scheduled Bodies, including Local Authorities or the Police, to join the Fund.

As these events are rare and tend to be unique in nature, there is no prescribed method for allocating an opening position. This would be determined on a case-by-case basis.

For any new Local Authority or the Police, the initial contribution rate is likely to be an individual rate calculated by the Fund Actuary.

Funding Target

The funding target for Local Authority and Police will be the ongoing funding basis.

Time Horizon & Likelihood

Because Local Authorities and the Police are considered a long term employer, the Fund will require a 66% minimum likelihood that the assets held on behalf of the Local Authorities and the Police meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) at the end of their time horizon. The maximum time horizon used will be 20 years.

Smoothing

The key principle for Local Authorities and the Police is the Fund's approach to stabilising contribution rates. "Stabilisation" is an approach which allows for short term volatility to be managed and keep employers' rates relatively stable. Provided there are no anticipated material events the following will be adopted:

	Better funded	Other scenarios
Min contribution level	18% of pay	18% of pay
Max contribution level	n/a	2022/23 rate
Max contribution increase	1% p.a.	20% p.a.
Max contribution decrease	1% p.a.	20% p.a.

Employers whose contribution rates have been "stabilised" may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

Some Local Authorities or the Police may be allowed to make an advance / lump sum payment of employer contributions 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.

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

Limited allowance has been made within employer contribution rates for ill health early retirement of members. Wherever an employee retires with an unreduced pension before reaching their earliest retirement age this will be considered as a Membership Experience item by the Fund Actuary at the next triennial valuation (e.g. the impacted employer will see a reduction in their surplus / increase in their deficit all else being equal which would then be recovered through normal employer contributions in future). However, an upfront, additional contribution ('strain') can be paid to the Fund by an employer if preferred.

Exit and Exit Obligations

The Fund considers a Local Authority and the Police to be long term employers. However it is important to consider arrangements when a Local Authority or the Police leaves the Fund, for whatever reason.

Suspension Notice

If and when a Local Authority or the Police ceases to have active members contributing to the Fund but the individual employer position is in deficit the Fund may issue a Suspension Notice - provided it reasonably believes that the employer is likely to have one or more active members contributing to the LGPS Fund within a three year period.

Where a Suspension Notice is issued, the Local Authority or Police may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Local Authority or Police's individual position. If lifted, an individual contribution rate will be calculated by the Fund Actuary.

Other circumstances

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

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

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

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Local Authority or Police may be permitted to make regular payments or enter a deferred debt agreement at the discretion of the Fund.

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

Contractors

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

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

APPENDIX 1B: Funding Strategy for Academies and Free Schools

Opening Position

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

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

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

For an Academy, the initial contribution rate will be equal to the Academies who are part of the Multi Academy Trust (MAT) pool or, if this is not applicable, that of WSCC. ~~except where the Academy elects to be pooled with other Academies who are part of the same Multi Academy Trust (where the rate set will be equal to the MAT's pooled rate) or where the Academy wishes to pay an individual rate calculated by the Fund Actuary.~~

For a Free School, the initial contribution rate will be an individual rate calculated by the Fund Actuary. ~~except where the Free School elects to be pooled with other Academies who are part of the same Multi Academy Trust (where the rate set will be equal to the MAT's pooled rate).~~

Funding Target

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

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

Time horizon & Likelihood

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

Smoothing

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

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

Due to the long term nature of Academies and Free Schools, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

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

Exit and Exit Obligations

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

Suspension Notice

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

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

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

Other circumstances

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

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

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

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

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

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

Contractors

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

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

APPENDIX 1C: Funding Strategy for Town and Parish Councils (Designating Employers)

Opening Position

Typically, new Town or Parish Councils constitute new membership in the Fund (there is no past service liabilities at outset and no assets). However, this would be determined on a case-by-case basis.

The new Town and Parish Council's initial contribution rate will be set equal to that of the Town and Parish Councils pool.

Funding Target

To value the Town and Parish Council's benefits built up to date, and future benefits, the Fund will use the "ongoing funding basis".

In the unlikely event that a Town or Parish Council is considered to be nearing the end of their participation, the Fund may move towards using expected returns on government bonds only (the "cessation ~~gilts~~ basis") and the Town or Parish Council may have an adjustment to their secondary contribution rates.

Time horizon & Likelihood

Because Town and Parish Councils are considered a long term employer, the Fund will look to be at least 66% sure that the assets held on behalf of the Town and Parish Councils meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100% on the relevant funding target) over a maximum time horizon of 20 years.

Smoothing

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

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

All Town and Parish Councils participate in the 'Town and Parish Councils" pool. Changes to the pooled contribution rate may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

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

Exit and Exit Obligations

Whist Town or Parish Councils are considered to be long term employers, it is important to consider arrangements when a Town or Parish Council leaves the Fund, for whatever reason.

Suspension Notice

If and when a Town or Parish Council ceases to have active members contributing to the Fund but the individual employer position is in deficit the Fund may issue a Suspension Notice provided it reasonably believes that the employer is likely to have one or more active members contributing to the LGPS Fund within a three year period.

Where a Suspension Notice is issued, the Town or Parish Council may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Town or Parish Council's individual position. If lifted, the Town or Parish Council will resume paying the Town and Parish Councils pooled rate.

Other circumstances

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

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

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

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

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

Provided the Town or Parish Council meets its exit obligations, they will have no further obligation to the Fund. These bodies will remain in the Town and Parish Councils pool after exit.

APPENDIX 1D: Funding Strategy for Other Scheduled Bodies

Opening Position

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, there is no prescribed method for allocating an opening position. This would be determined on a case by case basis.

For any new Scheduled Body, the initial contribution rate is likely to be an individual rate calculated by the Fund Actuary.

Funding Target

To value the Scheduled Body's benefits built up to date, and future benefits, the Fund will use the "ongoing funding basis".

Where the Scheduled Body is considered to be nearing the end of the participation, the Fund would move towards using expected returns on the lowest risk investments held (government bonds) only (the "cessation~~gilts~~ basis").

Time Horizon & Likelihood

Because Scheduled Bodies are considered a long term employer, the Fund require a minimum 70% likelihood that the assets held on behalf of the Scheduled Body meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the future working lifetime of their active membership (to a maximum of 20 years).

Smoothing

Due to the long term nature of Scheduled Bodies, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Security

There may be flexibility when setting employer contributions if a Scheduled Body provides added security (to the satisfaction of the Fund). Such security may include a suitable bond or guarantee from an appropriate third party or security over an asset of sufficient value.

Whatever rate is certified by the Fund Actuary in the Rates & Adjustment Certificate is the minimum employer contribution payable.

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

Limited allowance has been made within employer contribution rates for ill health early retirement of members.

As a result, ~~Wherever~~ wherever~~an employee retires from any other employer in this category~~ the preference is for employers to pay an upfront~~the employer is required to pay an upfront~~, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant.~~An employer can make a request to the Chief Finance Officer to consider any exceptions~~.

Exit and Exit Obligations

The Fund considers a Scheduled Bodies to be long term employers. However it is important to consider arrangements when a Scheduled Body leaves the Fund, for whatever reason.

Suspension Notice

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

Where a Suspension Notice is issued, the Scheduled Body may be required to pay secondary contributions during the period of the Suspension Notice.

The Suspension Notice will be lifted if one or more active members join the Scheduled Body's individual position. If lifted, an individual contribution rate calculated by the Fund Actuary.

Other circumstances

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

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

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

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

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

Provided the Scheduled Body meets its exit obligations, they will have no further obligation to the Fund.

APPENDIX 1E: Funding Strategy for Admission Bodies (Pass Through Risk Sharing)

Opening Position

Different 'pass through' arrangements have been adopted by letting employers when commissioning services from a third party.

However, (unless advised otherwise) where there is a new Admission Body set up under a pass through arrangement the letting employer will retain responsibility for all the accrued and future benefits of the transferring employees. As a result, no assets will be transferred (so no funding position will be calculated for the Admission Body).

The contractor's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority and the Fund.[3]

Funding Target, Time Horizon & Likelihood

Because an Admission Body is not considered to have any assets or liabilities in the Fund no individual funding position will be calculated.

Smoothing

Under normal circumstances, no specific smoothing is applied to Admission Body contribution rates as the rates are dictated within the pass through arrangement.

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

Limited allowance has been made within employer contribution rates for ill health early retirement of members. The approach taken to any "strain" costs when an employee retires with an unreduced pension before reaching their earliest retirement age will be in line with the arrangements for the letting authority.

[3] The main approach adopted is for a rate to be calculated which is 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) using the funding target of the letting employer unless otherwise specified in the pass through agreement or as agreed between the letting authority and the Fund.

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus.

An Admission Body on a pass through arrangement is not normally considered to have any assets or liabilities in the Fund provided it has met the conditions of the pass through arrangement. Therefore, no exit debt or credit will be due provided the conditions of the pass through arrangement are met. Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund. These bodies will be pooled with the letting employer.

APPENDIX 1F: Funding Strategy for Admission Bodies (Guarantor)

Opening Position

Where there is a new Admission Body set up as a result of a TUPE transfer of staff from a 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, 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 on the ongoing funding basis (so the admission body will start fully funded on an ongoing funding basis).

The Admission Body's initial contribution rate will be set on an individual basis except if agreed otherwise between the letting authority and the Fund.

Funding Target

To value the Admission Body's benefits built up to date, and future benefits, the Fund will use the "ongoing funding basis".

Time Horizon & Likelihood

Because an Admission Body is considered to be a shorter term employer, the Fund will use the likelihood associated with the letting authority as the minimum likelihood that assets held on behalf of the Admission Body meets (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the shorter of the future working lifetime of the active membership or the remaining contract term (to a maximum of 20 years).

Smoothing

Under normal circumstances, no smoothing is applied to Admission Body contribution rates.

Security

Security to the satisfaction of the letting authority and the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit greater flexibility within the framework for setting employer contributions.

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is that employers ~~are required to~~ pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus.

Provided that the Admission Body's opening position was calculated as fully funded on an ongoing funding basis then the same approach will be adopted when the Actuary completes a cessation valuation.

Therefore, on exit, liabilities will be valued using the "ongoing basis". Allowances may be made for future administration costs and/or reserves for retrospective changes to scheme benefits.

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

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

Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund. These bodies will be pooled with the letting employer.

APPENDIX 1G: Funding Strategy for Admission Bodies (No Guarantor)

Opening Position

The circumstances where an employer would be admitted to the Fund without a body guaranteeing their liabilities or providing security are rare and tend to be unique in nature.

Therefore, when setting the opening position, the particular circumstances related to an Admission will be considered on a case-by-case basis.

Funding Target

To value the Admission Body's benefits built up to date, and future benefits, the Fund usually use the "cessation ~~gilts~~ basis".

Security to the satisfaction of the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit a blended funding target between the ongoing funding basis and the "cessation~~gilts~~ basis".

Time Horizon & Likelihood

Because Admission Bodies with no guarantor are considered to be a shorter term employer, the Fund requires a minimum 75% likelihood that the assets held on behalf of the Admission Body meets (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) over the shorter of the future working lifetime of the active membership or the remaining contract term (to a maximum of 20 years).

Security to the satisfaction of the Fund (such as a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value) may permit greater flexibility in terms of time horizon and likelihood.

Where an Admission Body is nearing cessation, the Fund may vary the probability of being fully funded by the end of their time horizon to 50%. This is to reduce the chances of a surplus on cessation.

Smoothing

Under normal circumstances, no smoothing is applied to Admission Body contribution rates.

Additional Costs

Early Retirement

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

Ill Health Early Retirement

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

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is that employers ~~are required to~~ pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant. ~~An employer can make a request to the Chief Finance Officer to consider any exceptions.~~

Exit and Exit Obligations

When an Admission Body leaves, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine whether there is any deficit or surplus. Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

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

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

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

Provided the Admission Body meets its exit obligations, they will have no further obligation to the Fund.

APPENDIX 2: Actuarial assumptions

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

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 affect the actual benefits payable by the Fund in future.

The table below shows the assumptions for the 2022 valuation. The assumptions used in the 2019 and 2016 valuation have been shown for comparison. The same financial assumptions are adopted for all employers. The demographic assumptions, in particular the life expectancy assumption, reflect the different membership profiles of employers.

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
Discount rate	Annual returns over the next 20 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.	3.80% p.a.	3.10% p.a.	3.50% p.a. ~~(the return on long dated gilts plus 1.7% p.a. investment return assumption)~~
Salary growth	The same salary assumptions are applied to all employers.	2.90% p.a.	2.80% p.a.	4.25% p.a.
Pension Increases	Reflects best estimate of long term CPI Under the 5,000 different economic scenarios used to model the Fund's annual returns.	2.10% p.a.	2.30% p.a.	2.70% p.a.

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
Longevity Baseline Improvements	This is the best estimates of future experience in the Fund based on detailed analysis of past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary. These are specifically tailored to fit the membership profile of the Fund.	Club Vita CMI 2013 "Non-peaked" projections 1.50% p.a. long term improvements	Club Vita CMI 2018 Standard smoothing (7.0) Initial adjustment of 0.5% for males and 0.25% for females 1.50% p.a. long term improvements	Club Vita CMI 2021 Standard smoothing (7.0) Initial adjustment of 0.25% 0% weighting to 2020 and 2021 data 1.75% p.a. long term improvements
Male Pensioner	Note, these represent whole Fund averages. In effect, each employer will have mortality assumptions based on their own underlying membership.	23.6 years	22.2 years	22.3 years
Male Non Pensioner		26.0 years	23.3 years	23.1 years
Female Pensioner		25.0 years	24.2 years	24.7 years
Female Non Pensioner		27.8 years	25.9 years	26.5 years
Withdrawals		2016	2019	2022
Ill health retirements		2016	2019	2022
Promotional salary growth		2016	2019	2022
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)	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)	All retirements commute 50% of the maximum allowed by HMRC

Assumption	Description	31 March 2016	31 March 2019	31 March 2022
50:50 option take up		1%	1%	0.3%

The Fund may adopt alternative actuarial bases for some employees for both funding valuations and exit valuations as set out in the main FSS document and Appendices detailing the application of the FSS on different employer groups.

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 up to 2030 and 0.1% p.a. thereafter.

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

In the opinion of the actuary, the current financial assumptions are consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the ongoing 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.

APPENDIX 3: Actuarial Results

The table below compares previous valuation results (all figures as at 31 March)

	2007	2010	2013	2016	2019	2022
Assets £m	1,549	1,759	2,370	2,989	4,374	5,501
Liabilities £m	1,763	2,047	2,741	3,141	3,919	4,402
Surplus / (Deficit) £m	(214)	(288)	(371)	(152)	455	1,099
Funding Level	88%	86%	86%	95%	112%	125%

APPENDIX 4: Key risks and controls

The Fund has an active risk management programme in place and the full risk register is reviewed regularly. The risk register includes those risks that may impact on the funding strategy and appropriate measures are in place to mitigate those risks.

Risk management is central to the Fund and measures are in place to manage the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

The risks that are most likely to impact the funding strategy are –

- **Investment risk:** the risk of investments not performing (income) or increasing in value (growth) as forecast.
- **Employer risk:** those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.
- **Liquidity/maturity risk**: the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the Fund and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the Fund; transfers of responsibility between different public sector bodies; scheme changes that might lead to increased opt-outs; the implications of spending cuts – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.
- **Liability risk**: inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.
- **Regulatory and compliance risk**: occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.
- **Climate related risk**: the impact of the physical and transitional risks of climate change in the long term, and the responses of policy makers, on the finances of the Fund.

The above risks are included within the overarching risk management framework and strategy of the Fund.

APPENDIX 5: Statutory reporting and comparison to other LGPS funds

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 Department of Levelling Up, Housing and Communities (DLUHC) 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 scheme 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 and could include the implied deficit recovery period; and the investment return required to achieve full funding after 20 years.

Absolute considerations are not primarily concerned with comparing funds and could include

- 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;
- 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 Fund'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.

DLUHC 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 6 – Regulatory framework

The requirement to maintain and publish a Funding Strategy Statement is contained in the LGPS Regulations and the Department for Levelling Up, Housing and Communities has stated that the purpose of the Funding Strategy Statement 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 Statement has been written taking into consideration guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted following consultation with employers (a draft version of this document was issued to all active employers in September 2022 and employer events were hosted in October / November 2022).

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.

APPENDIX 7 – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part. Responsibilities of key parties are covered in other fund documents and summarised below:

Administering Authority

- operate the Scheme in compliance with the LGPS Regulations;
- 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 and pay the relevant benefits and entitlements that are due from the Fund;
- 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.

Individual Employer

- 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;
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership which could affect future funding; and
- notify the Administering Authority of any risk sharing arrangements or other pertinent information in the context of an exit credit.

Actuary

- 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 Department for Levelling Up, Housing and Communities (as assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS funds to meet Section 13 requirements.

Unrestricted

Pensions Committee

30 January 2023

Treasury Management Review 2022/23 and 2023/24 Strategy

Report by Director of Finance and Support Services

Summary

The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2022/23 (as originally approved by the Pensions Committee at their February 2022 meeting) with internally managed cash 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.

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 Committee approves the 2023/24 Treasury Management Strategy as set out in Appendix A.

(2) The Committee notes the treasury activity undertaken during 2022/23 (1 April to 31 December 2022).

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1 Background

1.1 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 Department for Levelling Up, Housing and Communities (DLUHC) "Investment Guidance".

1.2 The CIPFA Code also requires reports detailing compliance and performance against approved treasury strategies to be reviewed by the Pensions Committee.

2 Economic Summary

2.1 The County Council has appointed Link Group (Link Treasury Services Ltd) as its treasury advisor and part of their service is to assist the authority in formulating a view on interest rates. The following table gives their current forecast (updated December 2022) for UK Bank Rate:

Table 1: Link Group's UK Bank Rate Forecast

Date	**Rate (%)** UK Bank Rate (Link Forecast)
March 2023	4.25
June 2023	4.50
September 2023	4.50
December 2023	4.50
March 2024	4.00
June 2024	3.75
September 2024	3.50
December 2024	3.25
March 2025	3.00
June 2025	2.75
September 2025	2.50
December 2025	2.50

2.2 Link Group's forecast reflects a view that the Bank of England's Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases over the coming months. This has happened throughout 2022, but the UK Government's current policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

2.3 Further down the road, Link anticipate the Bank of England will then be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the yield curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the UK Government's Mini-Budget in September 2022.

2.4 The Consumer Price Index (CPI) measure of inflation will have likely peaked at close to 11% during the fourth quarter of 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank of England will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the current challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

2.5 Over the upcoming months, Link's Bank Rate forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the UK Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.

3 Treasury Management Strategy (2023/24)

3.1 The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2023/24 *(as originally approved by the Pensions Committee at their February 2022 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. The recommended 2023/24 Treasury Management Strategy is attached at Appendix A.

3.2 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).

4 Treasury Management Performance (2022/23)

4.1 On 31 December 2022 the Pension Fund's internally managed cash, excluding balances held in EUR/USD bank accounts, amounted to £13.3m (£16.4m on 31 March 2022). Between 1 April 2022 and 31 December 2022 the Pension Fund held an average internally managed GBP cash balance of £41m (£55.5m for 2021/22; to 31 December 2021).

4.2 The Director of Finance and Support Services confirms that there were no breaches of the approved 2022/23 Treasury Management Strategy regarding internally managed cash during the period 1 April 2022 to 31 December 2022. Throughout this period internally managed cash was held in a Lloyd's business account and a series of short-term (AAA credit rated) sterling Money Market Funds in compliance with the approved creditworthiness policy as set out in the 2022/23 Treasury Management Strategy.

4.3 The Director of Finance and Support Services also confirms that in addition to GBP cash balances held, foreign currency (EUR/USD) balances were held in attempting to achieve the most beneficial rates when exchanging back into Sterling and/or in anticipation of future Private Debt Fund payments. On 31 December 2022 the total amount of foreign currency held was valued in GBP at £17m (based on 31 December exchange rates as provided by Northern Trust):

Table 2: Foreign Currency Held (2022/23)

Bank Account	Balance at 31/12/22	Average Balance
Lloyds - Euro Account	€0.103m	€1.160m
Lloyds - US Dollar Account	$20.355m	$3.269m

4.4 In accordance with the investment strategy approved in February 2022 (internally managed cash balances) the Pension Fund received interest totalling £0.445m during the period 1 April 2022 to 31 December 2022 *(£0.007m for 2021/22; to 31 December 2021)*. The rate of return achieved on GBP balances held during the period was 1.44% *(0.02% during the same period in 2021/22)* reflecting the prevailing interest rates applicable on instant access GBP investments.

Table 3: Investment Performance (2022/23)

Counterparty	Average Balance £'m	Interest Received £'000	Rate of Return %
Lloyds-Current Account (GBP)	5.1	61.1	1.58
Short-Term Money Market Funds	35.9	383.9	1.42
Total	**41.0**	**445.0**	**1.44**

4.5 During the same period West Sussex County Council achieved a rate of return of 1.83% on its invested cash balances. The higher yield reflects the County 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.

Taryn Eves
Director of Finance and Support Services

Contact Officers
Jon Clear, Treasury Management Officer, 0330 222 3378

Appendices
Appendix A – Treasury Management Strategy (2023/24)

Treasury Management Strategy (2023/24)

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 Local Government Pension Scheme (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 debt/equity, infrastructure and commercial 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 Committee. 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 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 Committee 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 of **30 January 2023** 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+/A1/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+/A1/A	7 days
Debt Management Office	UK	-	AA-	7 days
Money Market Funds (GBP)	**Domiciled**			
Aberdeen Standard	Luxembourg	-	AAA	Overnight
Aviva	Ireland	-	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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 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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Unrestricted

Report to Pensions Committee

30 January 2023

Pension Administration

Report by Director of Finance and Support Services

Summary

On 31 December 2022, the Scheme had 90,664 members and 215 employers actively contributing.

Pension Administration services have been provided by Hampshire County Council since 4 March 2019. The following are highlighted:

- There were 86,169 member in the Scheme at 31 December 2022 and 216 employers actively contributing.
- Over the quarter 2,033 casework items were completed by the team (with 8,800 caswork items completed by the team over 12 months). All casework items were completed with the service level timescales. At 31 December 2022 786 casework items were in progress with the team, employers, members or other third parties (a reduction from 917 at 30 September 2022).
- 39% of members have now registered to use the Member Portal which allows access to Annual Benefit Statement or payslips, the ability for a member to run retirement estimates and the opportunity to update personal details.
- 72% of employers are registered onto Employer Portal which facilitates the submission of data to the team and allows employers to run early retirement estimates for their employees.
- Most data sets have been received from employers to allow the team to update membership records following the McCloud judgement continues. However the team are limited on their actions until Regulations are in place. From 1 October 2023 onwards, deferred, retirements and deaths (where applicable) must have underpin calculation included in benefit calculation. Timescales for retrospective adjustments are to be confirmed through the Regulations.

Recommendation:

The Pensions Committee notes the report.

1 Background and context

1.1 Hampshire County Council provides the Pension Administration Service for West Sussex County Council. The administration team work closely with the West Sussex Pensions Team.

1.2 The Pensions Committee has a key objective within its Business Plan to build on the improvement journey in relation to the administration and 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 with clear communication and robust reporting.

2 Membership and employer movements

2.1 On 31 December 2022 the Scheme had 86,169 members as analysed below.

	30-Sept-22	31-Dec-22	Movement
Active	25,353	25,926	2.2%
Deferred	36,054	36,521	1.3%
Pensioner	23,516	23,722	0.9%
Total	84,923	86,169	1.5%

2.2 In addition, there are 5,824 records classified as 'preserved refunds' (5,741 at 30 Septemer 2022). Preserved refunds relate to those leaving the scheme (primarily) before reaching a two year 'vesting period' threshold and therefore do not qualify for deferred benefits. A project is being scoped to provide options to those with preserved refunds in the Scheme.

2.3 On 31 December 2022 the Scheme had 322 employers. During the quarter four employers ceased and six employers were admitted.

Employer Status	30-Sept-22	31-Dec-22
Active	214	216
No active members	102	106
Total	316	322

3 Administration Activity

3.1 Appendix A has been included which shows LGPS contributions received over the period (up to November 2022 payroll), casework performance, complaints and portal access.

4 Annual Tasks

End of Year Returns

4.1 Updates have been provide to the Committee in relation to the performance of the 201 employers who needed to provide an annual return for 2021/22. In total 48 employers were written to requesting that the complete a data validation exercise where there were concerns about their data quality. Half of the employers responded positively to the team. The remainder have been escalated ot the Fund.

Annual Benefit Statements

4.2 Although the Statutory deadine for publication of Annual Benefit Statements is 31 August 2022 the team continue to work to resolve issues with employers to allow as many Statements as possible to be published by the 31 December 2022.

4.3 At 31 December, there were 35 active Annual Benefit Statements which could not be published (across 21 employers).

Pension Savings Statement

4.4 As at the statutory deadline of 6 October 2022, all required Pension Saving Statements were produced (84). The statement is sent to members who have exceeded the annual allowance and shows the growth in a member's pension benefits in the Scheme and test this against the annual allowance. The Local Government Association subsequently wrote to Administering Authorities recommending that they remind their members who exceeded their annual allowance for tax year to complete the relevant self-assessment reporting. A reminder was sent the week commencing 16 January 2023.

5 Project Work: McCloud

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

Regulations

5.2 A short consultation response was provided in January 2023 by the Director of Finance and Support Services on The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023. The response supported the detailed technical response provided by the Local Government Association and highlighted the clear expectation that the provisions in the Regulations are not be detrimental to individuals tax position, the need for clarity on the additional complexities associated with 'Excess teacher service' and the risks and concerns associated with the continued delay to regulatory amendments.

5.3 The Department for Levelling Up, Housing and Communities is to consult on further regulations governing the application of the McCloud remedy to the Local Government Pension Scheme. The Government is expected to publish its response to the 2020 consultation on amendments to the statutory underpin, an updated version of the draft regulations and a consulation on other aspects of the McCloud remedy which did not feature in the original consultation, such as compensation and rates of interest, later this year. It is expected that the Scheme Advisory Board will resume its McCloud implementation groups.

5.4 The new regulations are expected to come into force in October 2023.

Data

5.5 Employers are statutorily required to provide extra data (hours worked and service breaks) for all members in the Scheme. The data has been requested in two tranches (to 31 March 2021 and then 1 April 2021 to 31 March 2022) to allow the team to apply legislative changes to member benefits extending the underpin benefits to eligible younger members. The table below summarises progress.

Data Set	**1 April 2014 – 31 March 2021**	**1 April 2021 – 31 March 2022**
Deadline	30/06/2021	30/06/2022
Data Sets Received / Required	206 / 214	197 / 213
% of In Scope Membership	94.1%	94.8%

5.6 Whilst progress continues with uploading available data, the team have amended their approach due to the complexities of ensuring service and service break information provided by employers is uploaded to the correct pension record. Examples of those complexities are – but not limited to – members who have multiple and/or concurrent memberships; employers changing payroll provider and therefore their employee’s payroll numbers; a member being TUPE’d and earlier service history has not been retained by the current payroll provider or employer.

Additional Scope

5.7 The implementation of the McCloud remedy in the Teachers’ Pension Scheme (TPS) now also means that some teachers (part time employment in addition to a full time employment) will be retrospectively eligible for the LGPS for the period from 1 April 2015 to 31 March 2022. The Department for Education (DfE) is in the process of identifying affected members. This issue has arisen because, for some teachers, the part-time portion of their service was not pensionable in the legacy Teachers Pension Scheme final salary scheme but would have been eligible to join the LGPS where their employer offered it (because the LGPS regulations provide for membership if a person is employed by a scheme employer and is not entitled to membership of another public service pension scheme in respect of that employment). The remedy exercise is going to be administratively challenging for both the TPS and LGPS administering authorities (eg. adjusting employee and employer contributions / obtaining data to create LGPS member records / adjustments where benefits are already in payment / transfers back to the TPS).

6 Project Work: Dashboard

6.1 An update was provided to the Pensions Committee in November about the establishment of Pension Dashboards to allow individuals to go to a single website and receive details of all the pensions they hold across UK pension providers.

6.2 On 24 November 2022, the Pensions Regulator published a consultation on its Dashboards compliance and enforcement policy. Hampshire Pension Services are considering the detail of the consultation before discussing their draft response with pension fund officers prior to the closing date on 24 February 2023.

6.3 By 30 September 2024 the Pension Fund must be able to connect to the dashboard and respond to data requests. The expectation is that this will be a supplementary services within the Partnership Agreement with Hampsihre Pension Services.

7 Application of Administering Authority Discretions

7.1 The rules of the Local Government Pension Scheme (LGPS) are set out in the LGPS and associated statutory Regulations. However there are some provisions which are discretionary and West Sussex as Administering Authority can choose how, or if, it applies certain provisions of the Scheme. No discretions have been applied over the year to date.

7.2 In addition there are some administration processes which are not formal discretions but are still disclosured to the Pensions Committee as they are considered to be more exceptional. The Committee received information at its meeting in July 2022 about the checks and processes in place for due diligence when dealing with pension transfer requests. At the time all transfer requests received had been for a Public Sector Pension Scheme, an authorised Master/Trust scheme on the Pensions Regulator’s published list or an authorised Money Purchase Scheme. Over the last quarter one requests did not fulfil these initial due diligence checks and was therefore referred to the Director of Finance and Support Services and Director of Law and Assurance for consideration.

8 Breach Reporting

8.1 Since the last Pensions Committee meeting, there has been one data breach relating to incorrect indexing of a death certificate. The importance of checking membership identifiers prior to loading casework has been reinforced to the team.

9 Other options considered (and reasons for not proposing)

9.1 N/A

10 Consultation, engagement and advice

10.1 N/A

11 Finance

11.1 N/A

12 Risk implications and mitigations

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

13 Policy alignment and compliance

13.1 The Pensions Committee has an overarching objective to build on the improvement journey in relation to the administration and deliver a high-quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

Taryn Eves
Director of Finance and Support Services

Contact Officer: Rachel Wood, Pension Fund Strategist, 0330 222 3387, rachel.wood@westsussex.gov.uk

Appendices
Appendix A - Administration Activity

Background papers
None

Administration Activity

Key Performance Indicators

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

This casework does not include periodic tasks (such as the triennial valuation, publication of the Annual Benefit Statements, End of Year processes or notification of changes to Regulations).

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	Total	Mar 2022	Jun 2022	Sept 2022	Dec 2022
Active Retirement	174	93	143	0	0	**410**	56	114	125	115
Deferred Retirement	146	150	479	0	0	**775**	172	203	222	178
Estimates	150	252	1,699	0	0	**2,101**	507	563	594	437
Deferred Benefits	117	55	152	269	3,118	**3,711**	947	908	1,012	844
Transfers In & Out	29	19	37	0	0	**85**	21	19	16	29
Divorce	13	28	95	0	0	**136**	42	40	32	22
Refunds	169	285	103	0	0	**557**	136	120	150	151
Rejoiners	23	16	37	155	0	**231**	48	72	52	59
Interfunds	33	71	277	0	0	**381**	82	109	99	91
Death Benefits	296	51	66	0	0	**413**	106	77	123	107
Total	**1,150**	**1,020**	**3,088**	**424**	**3,118**	**8,800**	**2,117**	**2,225**	**2,425**	**2,033**

Work in Progress

The Administration Performance does not reflect work in progress which is with the team, employers, members or other third parties. The analysis below shows casework in progress at 31 December 2022 in relation to key processes.

Cases in Progress	0-5 days from receipt	6-10 days from receipt	11-15 days from receipt	16-20 days from receipt	21-30 days from receipt	31 + days from receipt	Total
Active Retirement	4	5	1	0	0	0	**10**
Deferred Retirement	6	14	3	0	0	1	**24**
Estimates	61	106	33	13	6	2	**221**
Deferred Benefits	9	168	64	50	80	7	**378**
Transfers in / out	5	5	0	0	0	2	**12**
Divorce	3	2	2	0	0	2	**9**
Refunds	5	0	0	1	0	0	**6**
Rejoiners	10	11	15	15	1	0	**52**
Interfunds	12	18	2	1	0	2	**35**
Death Benefits	9	2	4	3	9	12	**39**
Total	**124**	**331**	**124**	**83**	**96**	**28**	**786**
Previous quarter (total)	**138**	**468**	**131**	**52**	**92**	**36**	**917**

Portal access

The table shows registrations to the Member Portal (which allows members to view their Annual Benefit Statement, produce retirement estimates and to access and update their personal details) and Employer Portal (which allows them to submit data on starters/leavers and run estimate). Also included are the number of log in to the Member Portal over the quarter.

		Registration 30-Sept-22	**Registration 31-Dec-22**	**No. Log In Sept 22**	**No. Log In Dec 22**
Active	Registered	11,900 (47%)	12,243 (47%)	9,825	4758
Active	Opt out of online	163 (1%)	167 (1%)		
Active	No Response	13,290 (52%)	13,516 (52%)		
Deferred	Registered	11,305 (31%)	12,218 (33%)	5,299	3269
Deferred	Opt out of online	206 (1%)	211 (1%)		
Deferred	No Response	24,543 (68%)	24,092 (66%)		
Pensioner	Registered	9,183 (39%)	9,652 (41%)	2715	2932
Pensioner	Opt out of online	6,087 (26%)	6,103 (26%)		
Pensioner	No Response	8,246 (35%)	7,967 (34%)		
Total	**Registered**	**32,388 (36%)**	**34,113 (40%)**	**17,839**	**10,959**
Total	**Opt out of online**	**6,456 (7%)**	**6,481 (8%)**		
Total	**No Response**	**51,820 (57%)**	**45,575 (53%)**		
Employers Registered		157 73%	157 72%		

Call and email volumes

The analysis below shows the call and email volumes received by the administration team over the quarter.

Month	Jul-22	Aug-22	Sep-22	Dec-22	Total
Calls received	521	506	490	314	**1831**
Calls answered	516 (99%)	498 (98%)	481 (99%)	310 (98.72%)	**1805 (98.5%)**
Average wait time	73 seconds	61 second	72 seconds	63 Seconds	**(tbc)**
Emails	599	494	788	336	**2,217**

Contribution Monitoring

The table below shows Scheme Employer performance in respect of their statutory responsibilities to paying their contributions to the Fund (by 22 of each month following deduction) and to provide a valid remittance advice. This reporting template has been updated to provide additional detail about compliance.

Officers are working with employers who do not provide the required information in a timely manner.

	Apr	May	June	July	Aug	Sept	Oct	Nov
Total Active Employers	211	211	213	214	214	213	217	216
Fully compliant	203	199	205	199	192	198	207	200
Partially complaint – late remittance	7	7	6	11	10	14	10	13
Partially complaint – late payment	1	5	2	3	12	1	0	3
Not complaint – late remittance & payment	0	0	0	1	0	0	0	0

	Apr	May	June	July	Aug	Sept	Oct	Nov
Total Value of Late Payments (£)	35,133	70,326	994	3,028	8,871	11,193	-	17,340
Number of Late payments still outstanding	-	-	-	-	-	-	-	-
Total Amount Still overdue (£)	-	-	-	-	-	-	-	-
Overdue Amount as a % of total contributions	-	-	-	-	-	-	-	-

Complaints and Compliments

Over the quarter the team received 6 compliments.

Over the quarter three complaints have been responded to. Officers consider lessons learnt and any service improvements to be implemented following the receipt of a complaint.

	No.	Resolved / Ongoing	Stage
Accuracy of information supplied or accessible causing loss	1	Responded	IDRP Stage 2
Accuracy of information supplied impacting financial decisions made	1	Responded	Pensions Ombudsman
No notification received following auto enrolment by employer and unclear communications by the team	1	Responded	Stage 1

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